'02

Progressive. Predictable. Prudent.

MANITOBA TELECOM SERVICES INC. ANNUAL REPORT 2002

MTS

Contents:

Proven.

Progressive, predictable and prudent. This approach is essential for growth and prosperity, and it's an approach that reflects MTS's two fundamental strategies to **lead our markets in Manitoba** and **expand into complementary lines of business that leverage our strengths.** We will execute these strategies in three ways.

Defend: Our foundation was built on the business of communications here in Manitoba. Our foundation is profitable, and we will work to maximize the benefits from an investment we have worked so hard to build.

Transform and Grow: Growth in the communications industry requires flexibility and change. MTS will transition its network and service offerings to meet the needs of our customers while driving use of the network and, with it, profits.

Expand: Opportunities exist to grow into adjacent businesses that build on our key strengths. MTS will execute these wisely, prudently measuring the prospects of long-term success before moving ahead.

Financial highlights

(in $ millions, except earnings per share and ratios)

Years ended December 31	2002	2001	% change
Baseline[1]			
Revenues	835.1	820.8	1.7
EBITDA[2]	440.5	426.2	3.4
EBITDA margin	52.7%	51.9%	
Net income	113.5	112.3	1.1
Consolidated			
Revenues	927.3	1,003.0	(7.5)
EBITDA	411.4	368.0	11.8
Net income	163.8	73.7	122.3
Per share information			
Baseline earnings per share	$ 1.77	$ 1.74	1.7
Earnings per share	$ 2.55	$ 1.14	123.7

[1] Baseline results exclude the impact from Bell Intrigna, Bell West, the gain on the sale of Bell Intrigna and a one-time restructuring charge associated with MTS's workforce reduction initiative.

[2] Earnings before interest, taxes, depreciation, amortization, equity losses and other income (expense).

Earnings measures

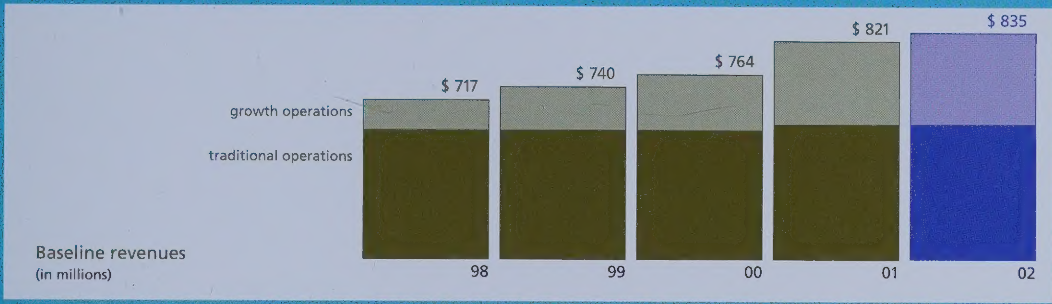
The Company has included information concerning EBITDA, free cash flow, and baseline financial results in its 2002 Annual Report because it believes that they are used by investors as measures of the Company's financial performance. These measures do not have a standardized meaning as prescribed by Canadian generally accepted accounting principles, and are not necessarily comparable to similarly titled measures used by other companies. EBITDA should not be construed as an alternative to operating income or to cash flows from operating activities (as determined in accordance with Canadian generally accepted accounting principles) as a measure of liquidity.

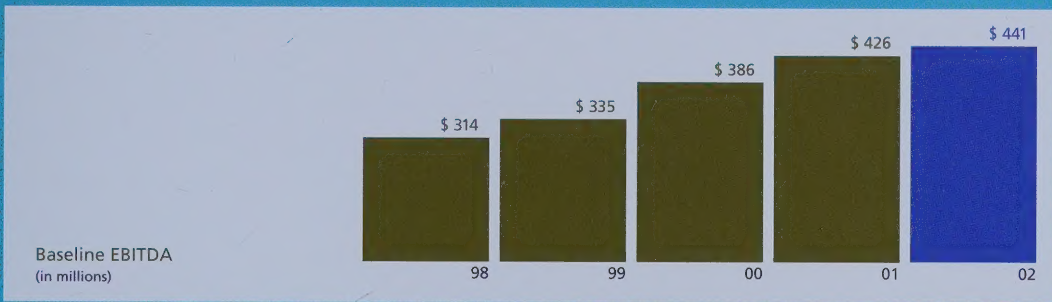
Forward-looking statements

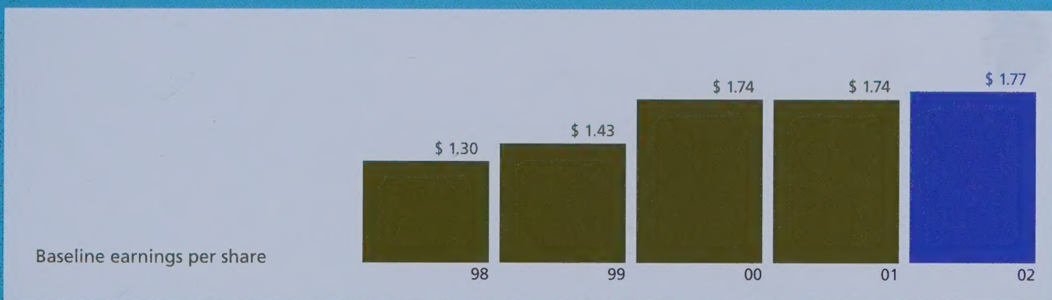
The Company's 2002 Annual Report includes forward-looking statements about the Company's corporate direction and financial objectives that are subject to risks, uncertainties and assumptions. As a consequence, actual results may differ materially from those projected or suggested. Factors that could cause actual results to differ materially from those expected include, but are not limited to, economic and geopolitical conditions, competitive factors, technological changes, and regulatory developments. These items are discussed in Management's discussion & analysis on pages 27 to 44.

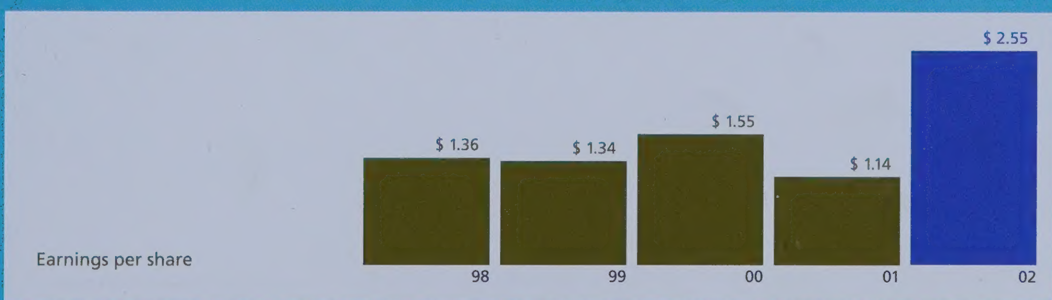
Five years' financial highlights

Years ended December 31









Progressive

Sustaining our foundation

For more than 90 years, Manitoba Telecom Services Inc. ("MTS") has quietly been building a history. The MTS history is one of sustained commitment to the fundamental business of communications, supported today by over 700,000 access services on our wireline network and more than 230,000 access services on our wireless network in Manitoba. Progressive management and sound planning have allowed us to defend the value of this network by adding new service options through appropriate investments, creating benefits for our customers and profitable growth for our investors.

Traditional services to defend:

Access services ↗

Long distance ↗

innovation.

MTS also has a history of loyalty and service, and commitment to our customers. Our customers look to us to meet their communications needs. We will always respond, ensuring they get the most out of a business we could not have built without them. Manitoba is more than our primary market–it is our home. We are committed to our leading position in the Manitoba market and will continue to build on our success here.

The MTS history is profitable and prosperous–our commitment to innovation will serve as a foundation for growth and profitability in the future.

Calling Features

Telesolutions International President Braiden Harvey (right) and Vice-President Brent Harvey (left) depend on MTS's commitment to customer service to maintain critical long distance connections to the United States.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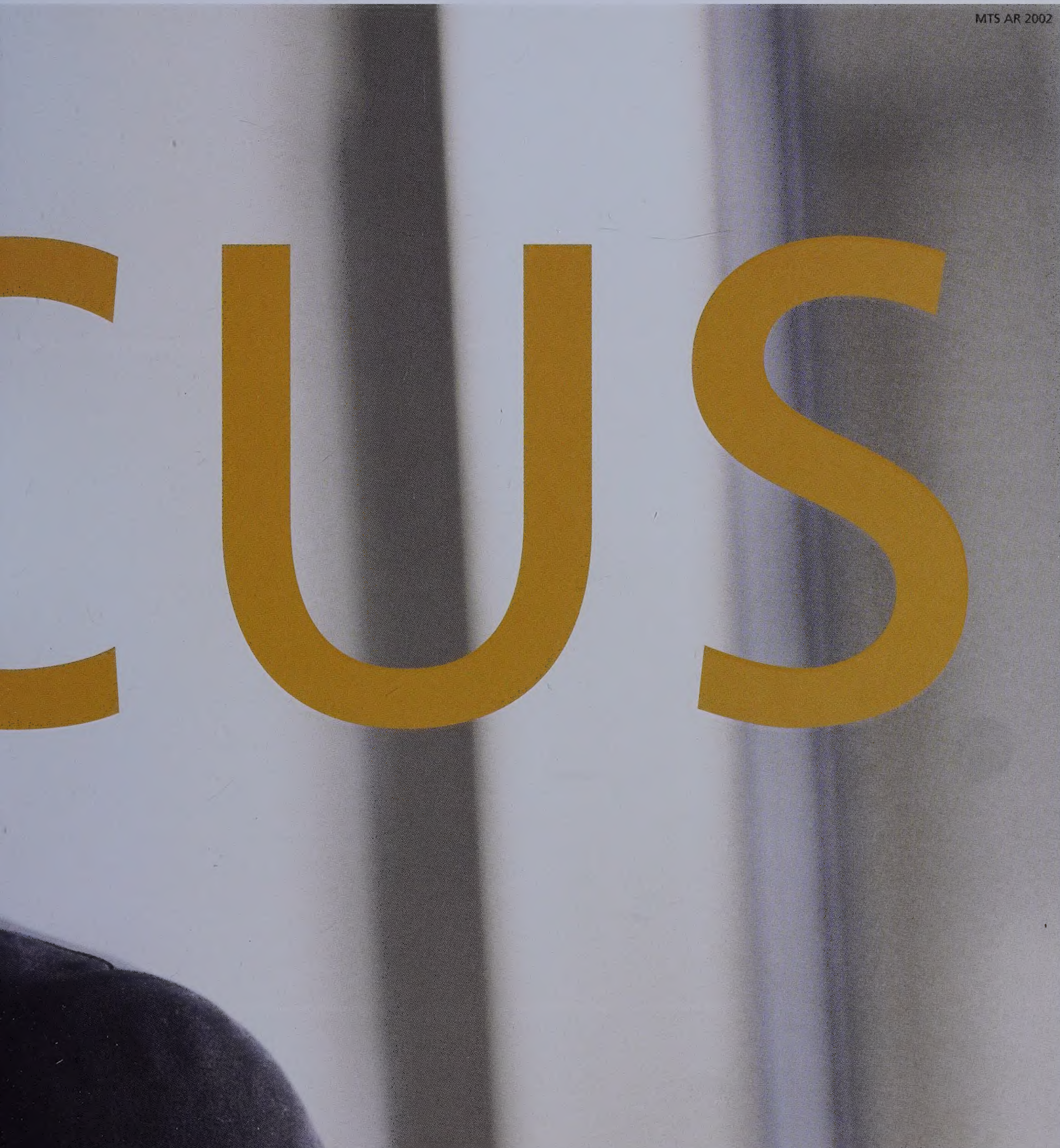


A progressive outlook.

At MTS, our employees lie at the heart of our success, and share our commitment to defending our fundamental business and serving our home market. This commitment is responsible for the high levels of customer satisfaction and loyalty that contribute to MTS's strong position in its markets, making us a leading regional telecommunications provider in Western Canada.

As we defend our market, Service Provisioning and Repair Manager Marian Anderson is focused on the efficient deployment of resources to deliver and maintain the high level of service MTS customers expect.

What we've done:

Established a network connection in virtually every home and business in Manitoba.

Expanded lines of revenue through value-added services, including Calling Features, layering revenue-generating services on the network.

Preserved a 98% share of the local service market through a combination of excellent product offerings, unparalleled quality and exceptional customer service.

Proven:

The proof of our steady approach lies in the numbers. Our 98% share of the local telephone market and 78% share of the long distance market illustrate the loyalty our customers have to the MTS brand and the service we provide them. The consistent profitability of our fundamental lines of business reflects the strength and pervasiveness of our network. We always have been, and will strive to remain, number one in these markets. MTS is committed to preserving its leadership position into the future.

What's next:

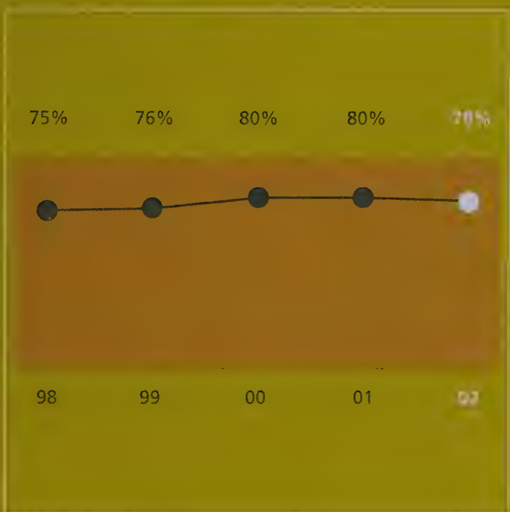
Sustaining our market share by tailoring a variety of service offerings to specific market segments.

Creating new loyalty pricing initiatives to encourage purchase of multiple services and reinforce MTS customer loyalty.

Retained a 78% share of the long distance service market in a very competitive environment, by consistently meeting customer needs with popular savings plans.

Established a network of retail stores and agents across Manitoba, in partnership with local businesses.

Market share–Long distance service



Market share–Local service

Maintaining the efficiency of operations to ensure continued profitability.

Progressive = Profit

Predictable, nat

Transforming & growing with technology

Change – whether in nature or industry – can't always be charted in advance. But it *is* inevitable. Players in the communications industry must be prepared for change if they are going to survive and prosper in a future of new technology and expanded services. MTS is making the investments necessary to facilitate that ongoing transition, so we can continue to grow in the future.

These investments include our five-year, $300 million investment in our NexGen broadband network and our continued expansion of wireless services across Manitoba. Through these investments, MTS is laying a foundation for the wider range of services our customers are looking for – services such as high-speed

Services to transform and grow:

Wireless cellular services ↗

High-speed internet ↗

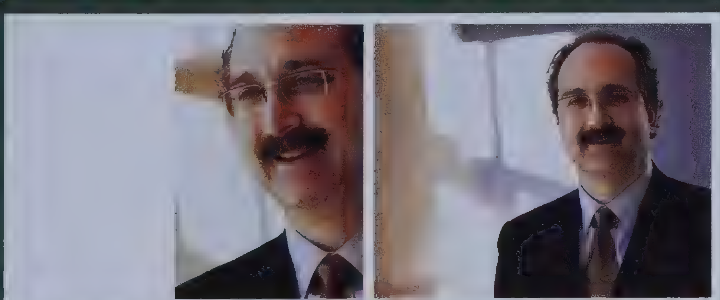
ural evolution.

Internet access, digital cellular service, data transmission networks, videoconferencing services and Voice over Internet Protocol ("VoIP") telecommunications systems.

MTS will continue to grow by adopting new technology that will provide the services our customers are looking for, while leveraging existing infrastructure. We have never taken our eyes off our customers, and are committed to ensuring that every new investment we make will support their needs with the most effective technology available.

Change is inevitable – at MTS, we see it as opportunity.

Videoconferencing



Bison Transport is one of the largest dry-van truckload carriers in Canada today. Working with MTS, Don Streuber, President & CEO of Bison Transport, is deploying leading-edge technology that will position Bison to move effortlessly into the world of VoIP.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Predictable growth.

At MTS, we are close to our customers, we understand them, and we have the skills to match our services with their needs. In touch with both technology and our customers, our employees know the future holds great promise. We are working together to sustain predictable growth that will create long-term shareholder value.

Customer Application Specialist Jason Clouston stays on top of the new technology necessary to add new value-added voice and data services to our wireless network.

What we've done:

Executed our NexGen initiative, providing access to broadband services to 76% of Manitobans and 96% of Winnipeg – driving demand for broadband access.

Increased high-speed Internet market share from 37% to 42% in 2002.

Enhanced our digital wireless initiative, now providing digital wireless coverage to over 90% of Manitobans.

Proven:

MTS's capacity to transform and grow can be seen in the strong market share improvements of our high-speed Internet services and the growing availability of digital wireless across Manitoba. Our Internet service now has a combined market share of 55%, while our wireless service boasts 68% market share, demonstrating once again the strong bond of service between MTS and its customers. With wireless coverage to more than 96% of Manitoba's population, and our NexGen network now reaching homes and businesses in 37 communities across Manitoba, MTS is in a strong position to continue its successful evolution.

What's next:

Completing the Government of Manitoba's provincial data initiative, which provides both revenues to MTS and an opportunity to further expand the reach of broadband services to our customers.

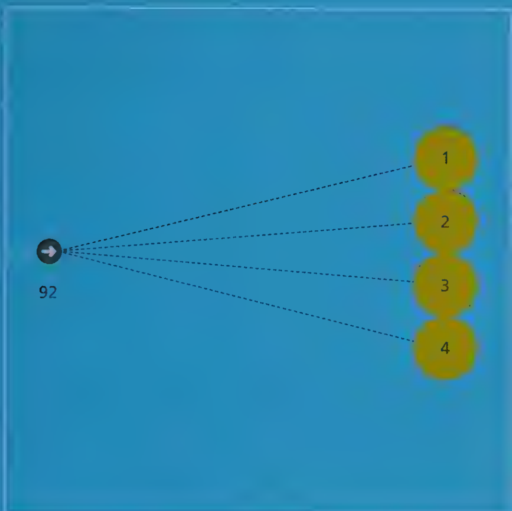
Increasing our high-speed Internet revenues through customer growth due to exceptional service and the introduction of new offerings that drive demand for bandwidth.

Expanded wireless network capabilities, focusing on key market segments, encouraging customer migration to better plans, introducing new functionality including Two-way Short Message Service and enhanced browser applications.

Introduced 1xRTT, for wireless data services up to five times faster than previously available.

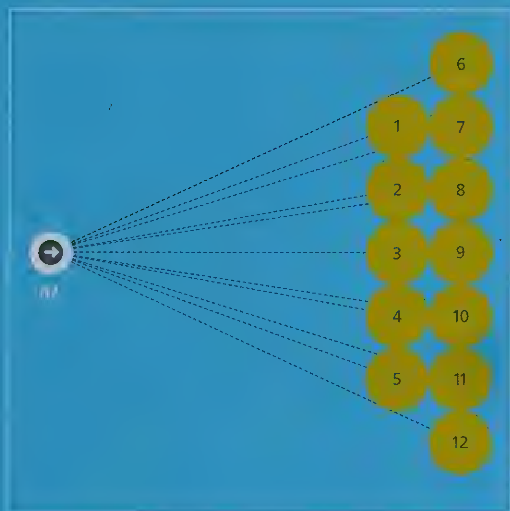
Designed and deployed Voice over Internet Protocol solutions at Assiniboine Community College and Red River College.

Services offered 10 years ago (1992)



1. Local
2. Long distance
3. Analog cellular
4. Specialized data services

Services offered today (2002)



1. Local 2. Enhanced Calling Features 3. Long distance 4. [illegible] 5. Digital wireless 6. Dial-up Internet 7. [illegible] 8. High speed data 9. VoIP telephony 10. [illegible] 11. Specialized data services 12. Security

Growing revenues and increasing the customer base by expanding our local content offerings for wireless customers. This provides a competitive advantage in our market.

Predictable = Promise

Prudence

Strategies to expand

With a secure lead in our home market and a sound financial position, MTS is carefully engaging new opportunities, allowing us to expand into new areas and deliver new products to customers inside our home market and across North America. Our approach to each opportunity is responsible, measured and balanced.

Our MTS Media subsidiary creates new sources of revenue by providing content across channels we already have established. Qunara, our e-business subsidiary, provides advanced information technology solutions to clients across North America. Through our 40% ownership in Bell West, MTS has enhanced its presence in Western Canada while simultaneously limiting risk and creating an opportunity to lock in a total return on investment in excess of 20%.

Services to expand:

Digital television ↗

Security services ↗

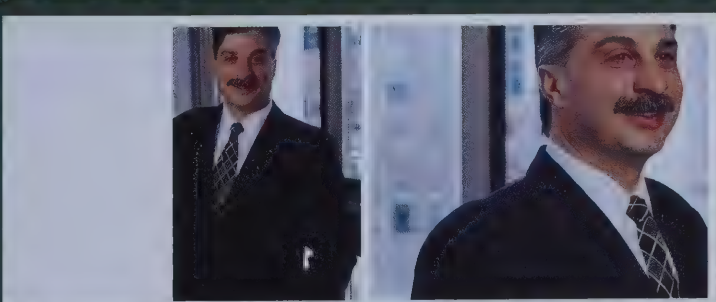
is a virtue.

MTS is also entering the digital television market. In January 2003, MTS TV was launched in Winnipeg following a very successful market trial. With a plan in place to offer this service to 85% of Winnipeg residents by the end of 2005, MTS TV will provide a rich media offering to customers already familiar with MTS's high standard of service, and will provide a platform for additional profitable revenues derived from our broadband network.

Our considered approach to expansion has paid off time after time for MTS, ensuring every step we take is a step forward, leveraging the investments we have to deliver value.

Qunara e-business solutions

↗



Harry Ethans, Senior Vice-President, Special Projects, CanWest Global Communications Corp., turned to MTS to establish a Winnipeg-based national customer contact centre for CanWest's chain of daily newspapers, and to host Canada's busiest Web site, *canada.com* – truly a "Made in Manitoba" solution.


RISK/R

Prudent measures.

MTS has worked hard to develop the infrastructure and brand that have given us our sound financial and market position. As MTS looks to expand, we will ensure that every step is taken prudently. While our employees are innovative and creative, they also know every opportunity must have a solid business case. Through these efforts, MTS can make every move toward expansion a carefully calculated one that leverages our existing strengths and delivers value for our customers and, ultimately, our shareholders.

Pat Palanuk, Marketing Manager for MTS TV Services, ensures the strong bond between MTS and its customers will serve as a foundation for success in this new line of business.

What we've done:

Established a Western growth strategy through Bell Intrigna, and secured an attractive return on investment based on the estimated $650 million value of the put option associated with Bell West.

Established Qunara and acquired The EXOCOM Group Inc. to expand the breadth of our services within our areas of expertise in e-business.

Purchased AAA Alarms and a number of smaller alarm companies in the West, deriving new revenues from our network and expanding our reach.

Proven:

The value of our expansions can be found in what they have in common. The creation of Bell West, the establishment of Qunara, the purchase of AAA Alarms, the development of MTS Media – all of these initiatives leverage the investments and competencies MTS already has established, and they provide valuable services to clients and strong returns to investors. This is a record we will build on with the establishment of MTS TV, an effort that has been carefully planned to position our company for success in a new line of business.

What's next:

Launching MTS TV through VDSL in Winnipeg in the first quarter of 2003 – a measured approach to phasing in the service across the city over three years.

Continuing to develop opportunities to drive profitable revenue by offering local content for multiple media available through MTS – including *myWinnipeg Life* magazine, television services, wireless data and portal services.

Created the *myWinnipeg.com* and *myManitoba.com* portals and *myWinnipeg Life* magazine; providing local content through various media, including our wireless browser, to drive both use of our services and advertising revenues.

Conducted successful technical and market trials for MTS TV in Winnipeg, and readied for market launch in early 2003.

Sources of revenue 10 years ago (1992)
(in millions)

1. Local and long distance [illegible]
2. Miscellaneous [illegible]

Sources of baseline revenue today (2002)
(in millions)

1. Local and long distance $579.1
2. Wireless [illegible]
3. Internet [illegible]
4. Solutions [illegible]
5. Directory [illegible]
6. Miscellaneous [illegible]

Working to ensure shareholders get the best possible return on MTS's investment in Bell West.

Prudent = Protection

Letter to shareholders

'02

Thomas E. Stefanson, CA
Chairman

William C. Fraser, FCA
President & Chief Executive Officer

MTS at-a-glance

MTS Communications Inc.

As the primary telecommunications provider in Manitoba, MTS Communications offers a full range of local, long distance, wireless, Internet and enhanced telecommunications services. The company has a fully digital, province-wide network; a cellular network covering 96% of Manitoba's population; and leading edge digital PCS featuring 1xRTT enhancement, paging and group communications networks. The company also offers digital television services through MTS TV. Through its affiliate, AAA Alarm Systems Ltd., MTS Communications provides residential and business security systems throughout Western Canada.

MTS Advanced Inc.

Operating in the marketplace under the name MTS Media, the company focuses on the delivery of advertising solutions and content services to merchants and consumers in Manitoba. Publishing 10 different directories, including the White Pages and Yellow Pages™, this company also operates the *myWinnipeg* and *myManitoba* Internet portals, as well as a growing specialty publishing business producing titles such as *myWinnipeg Life* magazine. The company also provisions content to other MTS devices and initiatives such as the mobile browser and the MTS TV portal.

Qunara Inc.

Qunara is a leading and trusted North American provider of advanced information technology solutions and managed services, with unique capability and proven experience in the areas of risk management and information technology security, content, information and knowledge management, and Web services. Qunara has extensive presence throughout Canada with offices in Winnipeg, Calgary, Toronto, Ottawa, Halifax and Moncton, and a dedicated U.S. sales team.

Progressive. Predictable. Prudent.

Our 2002 results show this approach is a proven route to profitability, both in times of economic boom and downturn.

The challenges faced by the Canadian telecommunications industry in 2002 provided an opportunity to test the business strategy that has brought MTS success for many years. We have passed with flying colours – our success in 2002 illustrates the wisdom of our approach even in a challenging business environment. In a year marked by economic uncertainty and turmoil in the markets, MTS has persevered, continuing to deliver excellent service, providing innovative new communications solutions, growing our business, and engaging carefully in investments aimed at delivering exceptional value to shareholders. We have succeeded – and our shareholders have benefited from our consistent focus on long-term value.

MTS's baseline[1] business once again delivered positive financial performance in 2002, with revenues and earnings per share ("EPS") of $835.1 million and $1.77 respectively – consistent with our expectations. Baseline revenues grew by 1.7%, and EBITDA[2] and EPS by 3.4% and 1.7% – a recognition of our ability to control costs and grow our EBITDA and EPS in the midst of challenging economic times.

On the investment front, 2002 was a very beneficial year for MTS. In April, MTS completed a deal with Bell Canada to convert its two-thirds ownership of Bell Intrigna into a 40% stake in the larger Bell West. MTS also secured an attractive put option in the deal, allowing MTS to sell its 40% stake back to Bell Canada in February 2004 for a guaranteed floor value, plus any incremental investments including an 8% return on such additional investments. This option is estimated to be worth approximately $650 million for MTS, representing a return on our investment of more than 20% if it is exercised. Bell West clearly illustrates how MTS's prudent approach to investments delivers value to our shareholders.

[1] Baseline results exclude the impact from Bell Intrigna, Bell West, the gain on the sale of Bell Intrigna and a one-time restructuring charge associated with MTS's workforce reduction initiative.

[2] Earnings before interest, taxes, depreciation, amortization, equity losses and other income (expense).

MTS's 2002 baseline performance and investment position derive from our long-term business strategies to lead the Manitoba market while expanding into related lines of business that leverage our strengths. We are executing on these strategies by:

- → defending our fundamental business and its vital connections to our customers;
- → transforming and growing our product offerings to customers, so that we can layer profitable new services on our existing network; and
- → expanding and investing in adjacent business to ensure a stronger foundation for MTS's future.

Our continued success can be measured by our competitive position in the Manitoba marketplace. MTS remains number one in our chosen markets: in the local market, we are at 98%; in long distance, we retain 78% market share; in wireless, we hold 68% market share; and our high-speed and dial-up Internet services combined hold a 55% market share.

MTS now maintains more than one million access points with our customers; this close bond with our market serves as the foundation for our future. MTS is building on this foundation with the continued development of the $300 million NexGen initiative that is bringing broadband capabilities to 85% of Manitobans by the end of 2003, and improvements to our wireless services.

Our broadband network, the most advanced and pervasive communications infrastructure in Manitoba, now provides 76% of Manitobans with access to high-speed Internet services. MTS has a total of 117,554 consumer Internet customers, including 61,628 with high-speed Internet service after less than three years – one of the fastest growth rates that has been achieved in the industry.

MTS continues to take advantage of opportunities to build on our existing broadband assets while improving profitability. In 2002, MTS secured the contract to develop the network that will support the Manitoba government's provincial data initiative. This initiative will see government offices around the province linked by the same advanced technology featured on our broadband network, bolstering the provincial government's service capacity

and strengthening MTS's bond to Manitobans, while providing approximately $50 million in revenues for MTS over five years.

In wireless services, MTS maintains its lead in the market thanks to a pervasive network that covers 96% of the population. In 2002, we expanded digital coverage to 23 additional Manitoba communities and launched the 1xRTT network in Winnipeg, which can move data at speeds up to five times faster than before. This new generation of technology will pave the way for new wireless services, such as enhanced Web browsing, two-way messaging, instant access to the Internet and e-mail, and downloadable software. Our strong brand and close relationship with our customers will allow us to successfully introduce these new wireless services, driving the use of our network and increasing revenues.

Qunara, our e-business company, registered several accomplishments throughout 2002, including a contract to develop Internet content and services for Corel Corporation, and a contract, announced in early 2003, worth up to $13.6 million to develop and deploy an online security system that will serve as the foundation for the Ontario provincial government's health information network.

2003 will be a year of execution on MTS's core strategies to defend, transform and grow, and expand our business – to build further on our lead in the Manitoba market and to leverage our strengths in new business opportunities that will drive profits and shareholder value.

Over the coming year, we will be thoroughly evaluating the put option associated with Bell West, which enhances MTS's strong financial position. If MTS should determine that exercising the 2004 put option will provide the best return to shareholders, we will carefully consider a number of potential value-enhancing uses for the proceeds. These include investing in our fundamental infrastructure and business adjacencies for growth, making accretive acquisitions that offer identifiable synergies with our existing business, increasing dividends, buying back shares or, finally, reducing debt. We will evaluate all of these options with the same prudent approach we always have used for deploying free cash flow to deliver maximum long-term value for shareholders.

In 2003, MTS is moving ahead with the launch of MTS TV. Using our broadband infrastructure as a backbone, MTS TV is a digital television service that MTS plans to make available to 85% of Winnipeg residents over the next two years. This service will serve as a growth vehicle for MTS, providing yet another value-added service our customers are looking for, and giving MTS a share in a market estimated to be worth in excess of $100 million in 2003.

Also in 2003, MTS will continue to grow by offering more digital services and local content for our wireless customers, building on the investments we have made in our 1xRTT network to drive usage and, with it, revenues. MTS will continue to defend its bond with the customer by offering tailored products to specific market segments. Finally, MTS will continue to leverage investments in our NexGen network.

These steps position us well to meet our financial targets of baseline revenue, EBITDA and EPS growth of 3% to 6% in 2003. Our confidence is based on the sound approach that already has allowed us to come so far and deliver so much. We will defend our markets to preserve the access upon which our close bond with our customer is forged, continuing to drive profitable revenues from our existing infrastructure. We will transform and grow our business by layering revenue-generating new services for our customers on that existing infrastructure. Finally, we will expand through careful, prudent investment in adjacent businesses, to build upon the solid foundation we have already established.

Progressive. Predictable. Prudent. It's the approach that underlies MTS's proven record of success – and will guide MTS to continued prosperity.

Thomas E. Stefanson, CA
Chairman

William C. Fraser, FCA
President & Chief Executive Officer

January 30, 2003

Md&a

Financial statements

Contents:

Management's discussion & analysis

This discussion & analysis should be read in conjunction with the Company's audited consolidated financial statements. This report includes forward-looking statements about MTS's corporate direction and financial objectives that are subject to risks, uncertainties and assumptions. As a consequence, actual results may differ materially from those projected or suggested.

Overview

Manitoba Telecom Services Inc. ("MTS" or the "Company") is a full-service, leading provider of communications services in the Manitoba marketplace. The Company's services are provided to business and residential customers throughout Manitoba across a state-of-the-art broadband network that seamlessly integrates wireline and wireless access. The MTS portfolio includes voice telecommunications connections for local and long distance services, along with broadband offerings for high-speed Internet, e-business, data communications, security services, and digital television. The Company is an equity investor in Bell West Inc. ("Bell West"), which formerly was known as Bell Intrigna Inc. ("Bell Intrigna"), a company launched by MTS in June 1999 with Bell Canada to expand into business telecommunications markets in Alberta and British Columbia. MTS has a 40% ownership position in Bell West, which today is majority-owned and operated by Bell Canada.

In 2002, MTS delivered yet another year of solid business performance, as reflected in strong levels of profitability overall, ending the year by slightly exceeding baseline[1] targets for earnings per share ("EPS") and EBITDA[2]. MTS's 2002 baseline targets called for revenues and EBITDA to increase by 3% and EPS to increase by 1%. These targets were established in June 2002 and were lower than the original forecast for the year because of softer market conditions and the negative impact of a regulatory decision issued in May 2002. Despite these factors, 2002 was a very strong year in reaffirming MTS's status as one of the most profitable telecommunications companies in Canada. Baseline EBITDA margins were 52.7%, compared to 51.9% in 2001 and 50.5% in 2000. Furthermore, MTS maintains – by industry standards – a very attractive debt ratio of 34.7%, providing the Company with the financial strength and flexibility to maintain and build on its leadership position in the core Manitoba market.

During the year, MTS continued to pursue strategies for achieving long-term profitable growth by leveraging the Company's strengths in its home market of Manitoba, while also prudently investing in markets and services adjacent to the core telecommunications business. Of material relevance was the completion, in April 2002, of a transaction that allows MTS to continue to participate in the potential upside and growth in the markets of Alberta and British Columbia, and, at the same time, establishes provisions to monetize the Company's investment in Bell West. Through a series of put options, of which the first one is exercisable in February 2004, MTS can elect to divest its ownership in Bell West for approximately $650 million, representing a return in excess of 20% on the funds invested in this initiative. Although no decisions had been made at year-end 2002 in regard to the exercise of the February 2004 put option, the preservation and enhancement of shareholder value is a top priority of the Company.

Management's approach to cash utilization has been to maintain a prudent balance between investing to strengthen the business and ensuring that shareholders receive a solid return on their investments in MTS. This was reinforced during the year through a 16% increase in the quarterly dividend to $0.22 per Common Share and per Preferred Share, and the renewal of the Company's normal course issuer bid to permit continued share buybacks during 2002. Throughout the year, MTS purchased 811,615 Common Shares for cancellation for cash consideration of $24.7 million under the terms of its normal course issuer bid. Since going public in 1997, the Company has returned $441 million to shareholders through uninterrupted quarterly dividends and share buybacks.

[1] Baseline results exclude the impact from Bell Intrigna, Bell West, the gain on the sale of Bell Intrigna and a one-time restructuring charge associated with MTS's workforce reduction initiative.

[2] Earnings before interest, taxes, depreciation, amortization, equity losses and other income (expense).

[3] The Company has included information concerning EBITDA and baseline financial results because it believes that they are used by investors as measures of the Company's financial performance. EBITDA and baseline do not have a standardized meaning as prescribed by Canadian generally accepted accounting principles, and are not necessarily comparable to similarly titled measures used by other companies. EBITDA should not be construed as an alternative to operating income or to cash flows from operating activities (as determined in accordance with Canadian generally accepted accounting principles) as a measure of liquidity.

The operational highlights in 2002 include:

- → Continued strong performance in wireless. The customer base increased 13.4% to 234,062, and revenues climbed by 13.9%. These results continue a multi-year track record of strong double-digit growth. MTS commanded a 68% share of the wireless market at year-end. Wireless remains a strong engine of growth in Manitoba, where the penetration rate at 30% is lower than the national average of 37%.
- → In the rapidly growing markets for high-speed Internet services, MTS increased its share to 42% from 37%. At year-end, the Company had reached 18% of the addressable high-speed Internet market – a considerable achievement since MTS initiated service.
- → In the more traditional long distance and local services markets, MTS maintained its undisputed status as the Manitoba leader, with a 78% share in long distance and a 98% share in local service. Local and long distance revenues together were $579.0 million, representing a decline of less than 1% from the level achieved in 2001.
- → Extensive technology and market trials were completed to evaluate the feasibility of commercially launching a digital television service in Winnipeg. This service uses a single set-top box to deliver high-speed Internet, telephony and digital television into the home. Very positive results from the technical trials, together with tremendous customer feedback on quality and pricing, have encouraged the Company to proceed – on a prudent, measured basis – to a commercial launch of the service in 2003.

2002 was a year in which, following the implementation of new arrangements pertaining to Bell West, MTS reformulated its strategic direction to emphasize its core operations and potential for Manitoba. This strategy has three elements:

1. **Defend the core** by gaining efficiencies in the provision of the full range of telecommunications services in Manitoba that MTS has been successfully doing for many years. The Company's biggest strength is its franchise and brand loyalty as the dominant service provider in Manitoba.
2. **Transform and grow the core** by ensuring the Company's portfolio in its core businesses evolves in response to changing customer requirements and their rising expectations for value, flexibility, capacity and service delivery. This means evolving existing services as well as launching new services that will profitably contribute to long-term growth.
3. **Expand the core** by targeting a larger share of the expanding communications dollar of Manitoba customers. As convergence happens more forcefully in the years ahead, opportunities will arise to pragmatically exploit the broadband network to offer services outside of, but complementary to, MTS's telecommunications focus. Digital television is one such opportunity.

Strategically, 2002 was a successful year in terms of the Company's focus on creating shareholder value. Early in the year, MTS reduced its direct operational involvement in Bell Intrigna, and took measures to successfully lock in gains resulting from the considerable value that had been created through its investment in Bell Intrigna. Management's focus on core operations in Manitoba resulted in a year of industry-leading performance on all key business indicators.

Consolidated financial highlights

(in millions, except earnings per share)	2002	2001	% change
Total operating revenues	$ 927.3	$ 1,003.0	(7.5)
Operating income	187.0	141.8	31.9
EBITDA	411.4	368.0	11.8
Net income	$ 163.8	$ 73.7	122.3
Basic earnings per share	$ 2.55	$ 1.14	123.7

Results of operations

Earnings per share ($)	2002	2001	% change
Consolidated EPS	$ 2.55	$ 1.14	123.7
Impact from Western operations	0.52	0.60	(13.3)
Gain on Bell West transaction	(1.39)	–	n/a
Restructuring charge	0.09	–	n/a
Baseline EPS	$ 1.77	$ 1.74	1.7

Consolidated EPS reached $2.55 in 2002, compared with $1.14 in 2001. These results include growth in baseline operations which increased by 1.7% in 2002, and lower year-over-year losses from MTS's Western operations through Bell West, which were offset by a one-time restructuring charge incurred in the fourth quarter arising from workforce reductions. Prior to April 11, 2002, Bell Intrigna's revenues and expenses were consolidated in MTS's financial results. After this date, MTS began accounting for its 40% ownership interest on an equity basis. The impact from Western operations includes both the consolidated results of Bell Intrigna to April 11, 2002 and the Company's 40% share of Bell West's losses after April 10, 2002. MTS's proportion of these losses totaled ($33.2) million, translating into an EPS impact of ($0.52), compared with ($0.60) from Bell Intrigna in 2001.

A one-time pre-tax gain of $94.2 million associated with the Bell West transaction also is included in 2002 consolidated EPS. As part of MTS's agreement with Bell Canada pertaining to Bell West, a put option was established that permits MTS to sell its ownership interest in February 2004 to Bell Canada at a guaranteed floor value of $458 million plus any additional capital contributions to Bell West made by MTS commencing on April 11, 2002 and including an 8% return on that incremental funding. This $94.2 million gain represents 40% of the difference between the floor value of $458 million and MTS's book value of its investment in Bell Intrigna.

EBITDA

(in millions)	2002	2001	% change
Consolidated EBITDA	$ 411.4	$ 368.0	11.8
Impact from Western operations	19.1	58.2	(67.2)
Restructuring charge	10.0	–	
Baseline EBITDA	$ 440.5	$ 426.2	3.4
Baseline EBITDA margin %	52.7	51.9	

In 2002, consolidated EBITDA increased by $43.4 million or 11.8% to $411.4 million. This improvement is attributable to growth in baseline operations and lower losses from Bell West. Baseline EBITDA increased by 3.4% to $440.5 million, producing an EBITDA margin of 52.7% that reflects the Company's ongoing focus on operational efficiency.

Quarterly data

The unaudited quarterly financial data for 2002 and 2001 is shown below:

	Three months ended			
2002	March 31	June 30	September 30	December 31
(in millions, except earnings per share)				
Total operating revenues	**$ 290.4**	**$ 216.6**	**$ 210.7**	**$ 209.6**
Operating income	**29.1**	**54.1**	**58.6**	**45.2**
Net income	**17.5**	**111.1**	**22.6**	**12.6**
Earnings per share	**$ 0.27**	**$ 1.72**	**$ 0.36**	**$ 0.20**
Diluted earnings per share	**$ 0.27**	**$ 1.71**	**$ 0.35**	**$ 0.20**
Baseline earnings per share	**$ 0.44**	**$ 0.45**	**$ 0.46**	**$ 0.42**

	Three months ended			
2001	March 31	June 30	September 30	December 31
(in millions, except earnings per share)				
Total operating revenues	$ 234.5	$ 251.5	$ 250.8	$ 266.2
Operating income	42.3	42.6	30.3	26.6
Net income	23.2	23.0	14.6	12.9
Earnings per share	$ 0.36	$ 0.36	$ 0.22	$ 0.20
Diluted earnings per share	$ 0.36	$ 0.35	$ 0.22	$ 0.20
Baseline earnings per share	$ 0.44	$ 0.45	$ 0.45	$ 0.40

Operating revenues

Consolidated operating revenues decreased by 7.5% to $927.3 million in 2002. This is largely attributable to the required adoption of the equity method of accounting for MTS's ownership interest in Bell West effective April 11, 2002, which is partly offset by modest growth in baseline revenues. The Company's results for 2002 include Bell Intrigna revenues of $92.2 million, compared to $182.2 million in 2001.

Total operating revenues

(in millions)	**2002**	2001	% change
Baseline operations	**$ 835.1**	$ 820.8	1.7
Bell Intrigna	**92.2**	182.2	(49.4)
Consolidated	**$ 927.3**	$ 1,003.0	(7.5)

Baseline revenues

(in millions)	**2002**	2001	% change
Traditional	**$ 611.3**	$ 616.0	(0.8)
High growth	**223.8**	204.8	9.3
Baseline	**$ 835.1**	$ 820.8	1.7

Revenues from baseline operations increased by 1.7% to $835.1 million in 2002. As expected, there was strong revenue growth in the wireless and Internet lines of business, as well as small improvements in long distance and directory. Baseline revenue growth was offset by decreased demand for telecommunications-related service contracts in the United States and e-business services that reflected softer economic conditions. Revenues from traditional operations, at $611.3 million, were down marginally by 0.8% from $616.0 million in 2001. Revenues from local services were lower in 2002, principally due to regulatory changes. This was partially offset by growth in long distance and directory revenues.

Traditional operations

(in millions)	2002	2001	% change
Local services	$ 373.5	$ 382.1	(2.3)
Long distance services	205.5	201.9	1.8
Directory	32.3	32.0	0.9
	$ 611.3	$ 616.0	(0.8)

Local services revenues of $373.5 million in 2002 were down 2.3% from the previous year. This decrease is mainly attributable to lower revenues arising from changes in the contribution mechanism approved by the Canadian Radio-television and Telecommunications Commission ("CRTC") for the collection and distribution of subsidies for the provision of local telecommunications services in high-cost serving areas. However, this decline in contribution revenues is more than offset by lower contribution expense. Excluding this factor, local service revenues were largely unchanged from 2001, decreasing by less than 1.0%. The year-over-year decrease is also due, in part, to a marginal decline in network access services, offset by growth in enhanced services and local rate increases implemented in 2001.

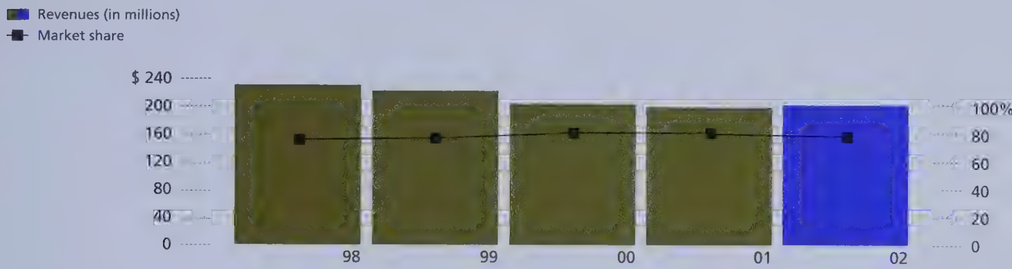
During 2002, revenues from enhanced services grew as a result of price increases, higher penetration and new offerings of value-added calling functionality. As expected, and consistent with industry trends, the small decline in network access services is attributable to some migration from traditional wireline services to other MTS services, such as high-speed Internet and wireless alternatives and service disconnections due to non-payment. Limited competitive losses contributed to lower network access services in the business segment, as did a general reduction in business activity that reflects more modest economic conditions in 2002. The limited negative impacts flowing from lower network access services are more than offset by the use of other MTS offerings. As shown below, MTS's total number of access services grew by 4.4% on a year-over-year basis.

Access services

	2002	2001	% change
Network access services			
Residence	452,102	455,054	(0.6)
Business	252,814	253,042	(0.1)
Consumer dial-up customers	55,926	63,074	(11.3)
Consumer high-speed customers	61,628	34,015	81.2
Cellular and PCS customers	234,062	206,447	13.4
Total access services	1,056,532	1,011,632	4.4

In 2002, MTS continued to maintain its leading position in long distance, with an estimated 78% share of the market at year-end. For the past three years, MTS has held its market share in the 78% to 80% range, with comparable stability extending to the revenue stream associated with this service.

Long distance



During 2002, long distance revenues rose by 1.8% to $205.5 million. This increase was driven by growth in the business and residential segments. On the business side, improved demand in the wholesale segment was partly offset by limited competitive market share losses and lower pricing for business customers. These improvements in the residential segment were predominantly due to price increases. Residential price increases in 2002 included a $1.25 network charge that became effective in February 2002, an increase in the rate for the Company's First Rate™ Unlimited calling plan from $17.95 per month to $19.95 per month, and other additional pricing increases.

	2002	2001	% change
Long distance minutes (000's)	1,219,005	1,236,813	(1.4)
Average revenue per minute	0.17	0.16	6.3

Directory services, which principally include the MTS Yellow Pages™ and White Pages telephone directories, continued to deliver steady performance in 2002. Revenues increased 0.9% to $32.3 million.

High growth operations

(in millions)	2002	2001	% change
Wireless	$ 137.4	$ 120.6	13.9
Internet	36.0	26.8	34.3
e-business	23.6	25.5	(7.5)
Miscellaneous	26.8	31.9	(16.0)
	$ 223.8	$ 204.8	9.3

	2002	2001	% change
Cellular customers	234,062	206,447	13.4
Consumer Internet customers	117,554	97,089	21.1
Cellular revenue per customer per month	$ 49.52	$ 51.38	(3.6)

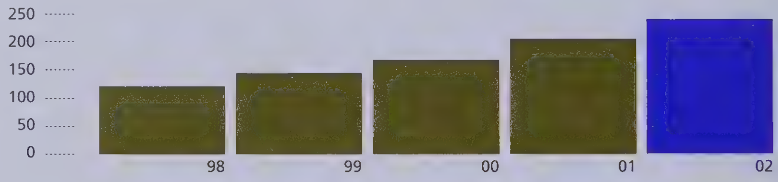
Wireless operations have been a significant driver of growth over the past several years, with consistent annual double-digit improvements in both revenues and customers. In 2002, revenues from wireless services climbed by 13.9% to $137.4 million. The wireless customer base increased by 13.4% to 234,062 customers. These gains were partly offset by a marginal reduction in average monthly revenue per customer ("ARPU"), which declined from $51.38 in 2001 to $49.52 in 2002. Lower ARPU levels in 2002 reflect slightly more competitive pricing and an increase in wireless customers subscribing to prepaid service. At year-end, prepaid customers represented 17.9% of the total wireless base, compared with 15.8% in 2001.

Prepaid services are an important component of the Company's wireless strategy, and represent an excellent entry point for new customers to experience wireless technology. During the year, MTS enhanced its offering with Web browsing and voicemail to encourage migration to post-paid services. MTS also reduced the airtime provided at a fixed price, effectively increasing the price of prepaid service.

MTS's wireless post-paid churn rate was unchanged in 2002 at 1.23%. Overall, churn was marginally higher at 1.67% from 1.47% in 2001, reflecting the impact of some competitor marketing programs, deactivations from non-payment, and an increase in prepaid subscribers. MTS continues to maintain its leading wireless position with a commanding 68% market share.

Cellular customer base

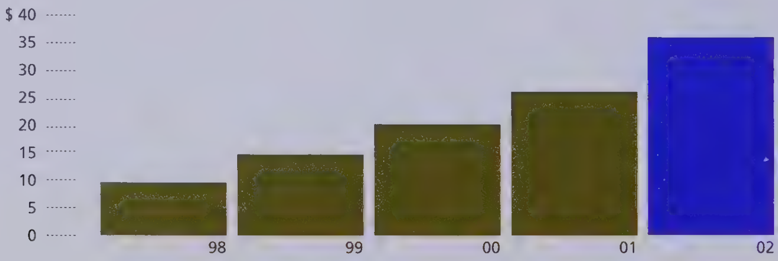
(in thousands)



Internet revenues grew by 34.3% to $36.0 million in 2002. Rising customer demand and growth in market share, together with higher average revenue per customer, accounted for this improvement. Strong revenue growth occurred in both the consumer and business segments. MTS achieved a milestone in the first quarter of 2002 by surpassing the 100,000 mark in the Company's total consumer Internet customer base. At year-end, MTS had 117,554 customers of residential Internet service. Average revenue per customer increased due to price increases, and a higher proportion of high-speed Internet customers.

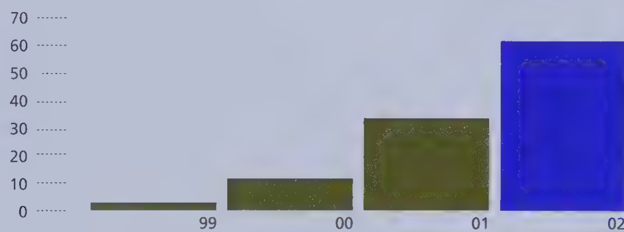
Internet revenues

(in millions)



MTS continued to proactively market its high-speed Internet services. MTS made strong competitive gains in 2002, increasing its high-speed share from 37% to 42%. By year-end, MTS exceeded its goal of a high-speed Internet customer base in excess of 60,000 customers. During 2002, the number of high-speed customers nearly doubled, growing by 81.2% to 61,628. In February 2002, MTS became the first telecommunications company in Canada to introduce an intermediate-speed offering for Internet service. This new offering is used as a means to introduce customers to the benefits of faster speeds, and, in the longer term, to move customers up the value chain with other broadband-enabled services. At year-end, 6,870 of MTS's high-speed customers subscribed to this new intermediate-speed service. Improving customer care and satisfaction in the Internet business were also top priorities in 2002, with installation wait times decreasing significantly. This focus continues into 2003. Consistent with plan, MTS's high-speed Internet service turned EBITDA positive in 2002.

High-speed Internet customers
(in thousands)



In September 2000, MTS undertook a multi-year program to enhance its network with broadband capabilities. The deployment of this infrastructure has taken MTS's broadband footprint to 76% of Manitoba, including 96% of Winnipeg and Brandon. At year-end, the broadband network had extended to 35 additional communities, 210 multi-tenant buildings, 41 industrial parks and 14 hotels. This extensive network footprint enables MTS to capitalize on increasing demand for high-speed Internet and other broadband services. The Company's broadband capabilities were instrumental in 2002 in winning a $50 million, five-year contract to deliver high bandwidth data services to the Government of Manitoba through a Provincial Data Network.

Throughout 2002, extensive market development and field research activities were undertaken to evaluate the launch of MTS TV, a broadband service targeted at residential customers in Winnipeg that would, using a single device, incorporate high-speed Internet, telephony services and digital television. The inclusion of digital television in MTS's portfolio of services was contemplated and provided for in the Company's original business case that supported the decision to undertake a broadband expansion in September 2000. This television component was made possible when the CRTC awarded MTS a broadcast distribution license in August 2002. The results of the market field trials were tremendously positive, although the Company is taking a prudent, measured approach to its commercial launch in 2003, with a goal of approximately 6,000 customers in Winnipeg by year-end. In addition to providing a significant growth opportunity, management believes that MTS TV provides the Company with an excellent opportunity to strengthen its competitive advantage by offering residential customers a "triple play" – telephony, high-speed Internet and television.

Revenues from Qunara Inc. ("Qunara"), the Company's e-business subsidiary, were $23.6 million in 2002 compared with $25.5 million in 2001. Qunara's lower revenues are attributable to softer demand for e-business services. E-business revenues are also more variable than traditional telecommunications services, as a significant portion of this business is project-based. At the end of 2002, Qunara won a number of long-term contracts that position it well to improve performance and to reduce revenue variability. Among these contracts is a five-year, $13.6 million agreement to provide information technology services in support of the Government of Ontario's provincial health information network.

Miscellaneous revenues declined by $5.1 million or 16% to $26.8 million. This reflects lower revenues from telecommunications-related service contracts in the United States, which were partly offset by growth in security services and online content revenues. In security services, MTS's wholly-owned subsidiary, AAA Alarm Systems Ltd., experienced strong growth, with revenues increasing by 16.9% to $8.3 million.

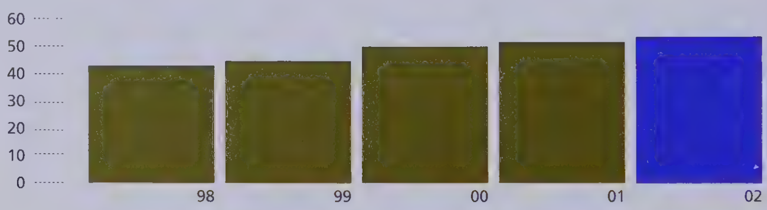
Operating expenses

(in millions)	2002	2001	% change
Baseline operations	$ 394.6	$ 394.6	0.0
Restructuring costs	10.0	–	n/a
Bell Intrigna operations	111.3	240.4	(53.7)
Depreciation & amortization	224.4	226.2	(0.8)
Operating expenses	$ 740.3	$ 861.2	(14.0)

Operating expenses were $740.3 million, representing a 14% decrease from 2001. This decrease is mainly due to the exclusion of Bell Intrigna's results from MTS's financial statements effective April 11, 2002. The inclusion of Bell Intrigna's operations expense in the Company's 2002 results accounted for $111.3 million in operating expenses, compared with $240.4 million for the twelve-month period ending December 31, 2001. This decrease was offset, in part, by a one-time restructuring charge of $10 million associated with workforce reductions in MTS's baseline operations. This restructuring charge represents severance costs associated with the elimination of approximately 250 positions. The workforce reductions reflect management's efforts to ensure ongoing competitiveness. These reductions are being implemented primarily in areas where there is weaker market demand, which includes telecommunications-related services performed in the United States and network services where requirements for infrastructure work are reduced as MTS completes its broadband initiative. Other reductions were made as a consequence of re-engineering initiatives.

Baseline operations expense, at $394.6 million, was unchanged from the prior year. This reflects the continued expansion of wireless and broadband lines of business, offset by improving efficiencies across all lines of business, as well as lower contribution and long distance expenses. The CRTC's transition to a revenue charge format contribution mechanism in 2001 was a factor in lowering expense. MTS continued to improve the efficiency of its operations during the year, through re-engineering initiatives, contract re-negotiations and group purchasing synergies. All of these actions contributed to the achievement of a 52.7% baseline EBITDA margin, which reinforces MTS's status as the lowest cost telecommunications provider in Canada.

Baseline EBITDA margin
(%)



Non-cash expenses of depreciation and amortization decreased by 0.8% or $1.8 million to $224.4 million. These decreases are due to the elimination of Bell Intrigna depreciation expense effective April 11, 2002, together with lower amortization expense associated with goodwill following the Company's adoption of Section 3062 of the Canadian Institute of Chartered Accountants ("CICA") Handbook on January 1, 2002. Largely offsetting these decreases were higher levels of plant-in-service related to MTS's broadband initiative.

Bell Intrigna/Bell West

At year-end 2001, MTS was in discussions with Bell Canada concerning the future strategy and operation of Bell Intrigna, which was formed as a competitive local exchange carrier in June 1999 to expand into high-growth business markets in Alberta and British Columbia. This company, which was owned 2/3 by MTS and 1/3 by Bell Canada, jointly served business customers with BCE Nexxia Inc. ("Bell Nexxia"), a wholly owned subsidiary of Bell Canada. Under this arrangement, Bell Intrigna served regionally based business customers, while Bell Nexxia was responsible for nationally based customers.

On April 11, 2002, MTS announced the outcome of its discussions with Bell Canada. All of the wireline assets of Bell Nexxia located west of Ontario were transferred to Bell Intrigna, which was financed through the issuance of Bell Intrigna shares to Bell Canada. As a result of this transaction, MTS's equity interest in this company, which was renamed Bell West, was reduced to 40%. Bell West is now the single point of contact for the business customers of MTS and Bell Canada in Alberta and British Columbia, and wholesale services previously provided by Bell Nexxia to MTS are provided by Bell West. Operating with an expanded mandate, Bell West is today positioned to leverage its strengths to build a high-growth, profitable business for the long term.

The agreement that MTS entered into with Bell Canada, Bell Nexxia and Bell West contains a series of liquidity provisions with respect to MTS's 40% equity interest in Bell West, which provide for certain put options for MTS and call options for Bell Canada. In February 2004, MTS can sell its interest in Bell West to Bell Canada at a guaranteed floor value of $458 million plus any additional capital contributions to Bell West made by MTS commencing on April 11, 2002, and including an 8% return on that incremental funding. In January 2007, MTS can sell its interest for fair market value less 12.5% plus up to an additional $10 million. In the event of the occurrence of certain change events, MTS can sell its interest in Bell West to Bell Canada at fair market value less 12.5% plus up to an additional $10 million. Provisions for Bell Canada to purchase MTS's ownership interest in Bell West also were established in the event MTS did not exercise its put options. In March 2004, Bell Canada has the option to purchase MTS's interest at the greater of the floor value and fair market value. In February 2007, Bell Canada has the option to purchase MTS's interest at fair market value. In the event of a change of control of MTS to a party other than Bell Canada, Bell Canada can purchase MTS's interest in Bell West at fair market value.

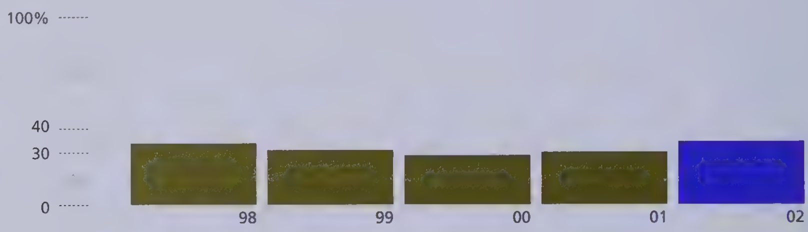
The put options confirm the significant value created by Bell Intrigna and eliminate risk for MTS associated with its continuing investment in Bell West. MTS provided $77.6 million of funding to Bell West in 2002. This funding, together with interest earned on that funding, increased the value of the put option to $538 million at December 31, 2002. MTS's funding requirements are estimated at $89 million in 2003 and $31 million in 2004. In total, MTS's funding requirements for Bell West are approximately $199 million over the three years of the initial business plan approved by Bell West's shareholders. This means that, in total, the value of the put option is projected to be approximately $650 million by February 2004.

Debt charges

(in millions)	**2002**	2001	% change
Debt charges	**$ 29.5**	$ 25.0	18.0
Average weighted cost of long-term debt at year-end	**6.69%**	7.52%	
Debt/total capital ratio	**34.7%**	30.1%	

Debt charges increased by $4.5 million to $29.5 million in 2002. This increased interest expense is associated with the Company's higher levels of average outstanding debt and commercial paper, which is partly offset by a decrease in interest expense due to a lower average coupon rate. MTS's borrowings in 2002 were used to refinance maturing debt, to pay income taxes for 2001, and to fund its Bell West commitments. Throughout 2002, MTS maintained its industry-leading balance sheet strength with a debt ratio of 34.7% as at December 31, 2002.

Total debt to total invested capital



Income tax expense

(in millions)	2002	2001	% change
Income tax expense	$ 71.6	$ 63.5	12.8
Effective tax rate	31.2%	54.5%	

Income tax expense increased by 12.8% to $71.6 million in 2002. The Company's effective tax rate of 31.2% for 2002 decreased from 54.5% in 2001. MTS's effective tax rate was higher in 2001 due to the rates applicable to Bell Intrigna losses. Effective April 11, 2002, MTS's consolidated results and financial position no longer included the results of Bell Intrigna and, as a result, effective tax rates are largely consistent with the statutory tax rate in 2002, except for the impacts of the gain on the Bell West transaction and related equity losses. This gain is taxed at the lower capital gains rate of approximately 19%, while the change from consolidation to the equity method of accounting for Bell West required MTS to record a one-time tax recovery of $14.1 million in the second quarter to reflect the difference between the tax value and book value of its investment in Bell West.

Liquidity and capital resources

Cash flows from operations

(in millions)	2002	2001	% change
Cash flows from operating activities	$ 209.8	$ 293.3	(28.5)

Cash flows from operating activities were $209.8 million in 2002 as compared to $293.3 million in 2001, representing a 28.5% decrease, which is mainly attributable to the timing of income tax payments. MTS's 2002 cash flows from operations include income tax payments for two years as a result of the Company's 2001 income taxes becoming due in the first quarter of 2002. Cash flows from operating activities before changes in working capital (which eliminate the timing impact associated with income taxes) grew by 28.0% to $277.7 million, primarily as a result of MTS no longer consolidating Bell Intrigna's operations in its financial results effective April 11, 2002. Cash flows from baseline operating activities before changes in working capital increased by $9.0 million to $299.5 million in 2002.

Investing activities

(in millions)	2002	2001	% change
Cash flows used in investing activities	$ 301.9	$ 407.7	(26.0)

Cash flows used in investing activities decreased by $105.8 million to $301.9 million in 2002. This reflects lower capital spending on baseline operations; the purchase of The EXOCOM Group Inc. in 2001; and MTS no longer consolidating Bell Intrigna's capital expenditures in its financial results effective April 11, 2002. 2001 marked the peak year of capital deployment for MTS's broadband initiative. As such, baseline capital expenditures decreased by $50.8 million to $213.6 million in 2002, down 19.2% from $264.4 million in 2001. These year-over-year declines were partly offset by funding to Bell West, which totaled $77.6 million.

Free cash flow[3]

Baseline operations generated very positive free cash flow of $31.1 million in 2002, which is reflective of the underlying strength of the business. Consolidated free cash flow improved from ($239.7) million to ($76.8) million as a result of reduced funding requirements for Bell West. All of the funding that is provided by MTS to Bell West commencing on April 11, 2002, together with an 8% return on such funding, will be recoverable by the Company if it exercises its put option in relation to Bell West in February 2004.

Financing activities

(in millions)	2002	2001	% change
Cash flows from financing activities	$ 59.3	$ 24.0	147.1

Cash flows from financing activities increased by $35.3 million to $59.3 million in 2002. This reflects higher levels of long-term debt in 2002. Proceeds from 2002 borrowings were used to pay income taxes, fund Bell West and repay maturing long-term debt. During the year, MTS re-purchased 811,615 Common Shares for cancellation for cash consideration of $24.7 million and, in the second quarter, the Company increased its quarterly dividend rate by 16% or $0.03 to $0.22 per share. Cash outflows associated with dividend payments totaled $52.6 million in 2002.

Credit ratings

	2002	2001
DBRS – Commercial paper	R-1 (low)	R-1 (low)
DBRS – Senior debentures	A (low)	A (low)
Standard & Poor's – Commercial paper	A-1 (mid)	A-1 (mid)
Standard & Poor's – Senior debentures	A	A

In 2002, MTS continued to maintain its solid credit ratings. In February 2003, Standard & Poor's affirmed the "A" rating on MTS's senior unsecured debt and the "A-1 (mid)" rating on its commercial paper. Dominion Bond Rating Service continues to rate MTS's commercial paper as "R-1 (low)", and MTS's senior debentures as "A (low)". Both credit rating agencies re-confirmed MTS's ratings following the announcement of the Bell West transaction. These ratings reflect the Company's strong balance sheet, sustained levels of high profitability, leading market position in Manitoba, and prudent growth strategies and risk profile.

[3] Free cash flow is defined as cash flow from operating activities, less investing activities, dividends and excluding changes in working capital.

Credit facilities

In June 2001, MTS filed a short form base shelf prospectus to establish a new medium term note program. This program enables MTS to periodically issue medium term notes up to an amount of $350 million through to July 2003, at which time management anticipates that it will renew this program. As at December 31, 2002, MTS had issued $145 million in medium term notes under this shelf prospectus. These funds were used to re-finance other maturing notes, pay income taxes, and fund MTS's Western operations. As at December 31, 2002, the Company had a $100 million commercial paper program in place, under which $11 million was outstanding. In February 2003, MTS will increase its commercial paper program to $150 million. This program enables MTS to add a short-term component to MTS's debt structure where appropriate. MTS also has a $50 million operating line of credit used for cash management purposes and to support the issuance of letters of credit. This facility was not utilized as of December 31, 2002.

Regulatory environment

The telecommunications and broadcast industries in which the Company's major operating subsidiary, MTS Communications Inc. ("MTS Communications"), operates are governed by the CRTC. The CRTC regulates telecommunications common carriers under the authority of the *Telecommunications Act* (Canada) and broadcast distribution undertakings ("BDUs") under the authority of the *Broadcasting Act* (Canada). The CRTC has authority over certain aspects of the operations of telecommunications common carriers, including rates, service packages, quality of service, costing and accounting practices. The CRTC, however, has the discretion to forbear from regulating certain services where it considers the market sufficiently competitive to protect consumers. The CRTC also licenses BDUs and regulates the broadcasting services that BDUs are allowed to carry on their television services.

Telecommunications

The CRTC regulates the rates, terms and conditions of the telecommunications services offered by MTS Communications in respect of which there is insufficient competition to protect the interests of consumers. Currently, the majority of regulated services are in local telephone markets. The CRTC requires MTS Communications to file tariffs for these services and to demonstrate that prices cover the costs of providing the services. Services that are deemed to be in sufficiently competitive markets do not require CRTC approval, and can be priced in accordance with marketplace demands. Long distance, wireless, Internet, terminal and some data services have been forborne from regulation by the CRTC. The CRTC, however, retains the authority to regulate the terms and conditions of these services to prevent unjust discrimination or the conferring of undue preference in relation to these services. The Company's subsidiaries, MTS Advanced Inc., which was re-named MTS Media Inc. effective March 1, 2003, and Qunara Inc. ("Qunara") are not regulated by the CRTC.

Many of the local telecommunications services offered by MTS Communications, such as single-line residential and business service, have been under a price cap regulatory regime since January 1998. Under the price cap regime, the CRTC regulates telephone company prices rather than revenues. Price cap regulation allows the prices of capped services to be adjusted annually by an amount based on the rate of inflation minus a productivity offset, plus any additional exogenous factors. The measure of inflation is based on the Gross Domestic Product Price Index. The productivity offset applied to the telephone companies in the first price cap period was 4.5%. New rates for capped services based on the price cap formula are filed in March of each year to be effective in May of the same year.

In May 2002, the CRTC issued a decision that extended the price cap regime for a second four-year period beginning on June 1, 2002. This decision governs the local rates charged to residential and business customers and the rates that incumbent telephone companies can charge to their competitors.

The second price cap regime effectively froze local residential rates for the price cap period unless inflation exceeds 3.5%, restricted business local service increases to the rate of inflation, and established rebates to customers if telephone companies fail to meet CRTC service standards. The CRTC lowered the productivity offset to 3.5% for the second price

cap period. In lieu of rebates to customers for time-limited rate increases granted in the first price cap period to pay the costs of implementing local competition, the CRTC established a deferral account. This account may be used to fund price decreases for services provided to competitors, to recover service improvement plan costs in non high-cost serving areas, and to mitigate the effects of any local residential price increases and other initiatives that might be beneficial to residential customers. Amounts associated with price reductions arising from the price cap regime will be placed in this deferral account as well. MTS will make its proposals for the use of the deferral account annually in March coincident with its annual price cap filing.

The second price cap regime also reduced the rates that MTS can charge for the services it provides to its competitors. Beginning in 1998, the market for local telephone services opened to competition. Incumbent telephone companies are required by the CRTC to make certain essential elements of their networks available to competitors at tariffed rates. This enables new entrants to provide competitive services without completely replicating the networks of the existing telephone companies. With the second price cap decision, the CRTC increased the number of telephone company services that are available to competitors at rates based on the cost of providing these services, plus a fixed mark-up of 15%. Local service competitors have been active in the Winnipeg market since December 1998.

MTS Communications, as an incumbent telephone company, retains an obligation to provide service throughout its operating territory. The CRTC has established a basic service objective that incumbent telephone companies must meet in all areas of their operating territories. This objective requires that local telephone service to all customers be delivered using digital switches that can connect with the Internet at low speeds, provide access to long distance and enhanced services, and have the ability to connect to emergency and message relay services. Commencing in 2000, MTS has undertaken an eight-year service improvement plan to upgrade service in northern Manitoba communities to meet this standard.

MTS Communications, as an incumbent telephone company, is obligated to provide local phone service in large parts of the province at rates that do not cover the cost of this service. The CRTC has established ongoing explicit subsidies to maintain service in these high-cost serving areas. In 2001, a new mechanism for the payment and collection of these subsidies was implemented. Accordingly, MTS receives a subsidy in support of local service in high-cost serving areas from a national fund to which all telecommunications service providers, including MTS, must contribute.

Broadcasting

MTS received a Class 1 regional broadcasting distribution license from the CRTC in August 2002, which will enable the Company to operate a BDU to serve Winnipeg and surrounding areas. MTS's digital television service will bring a full range of broadcast services to customers in Winnipeg beginning early in 2003. The CRTC establishes the services that MTS must carry on its digital television service pursuant to the *Broadcasting Distribution Regulations* under the *Broadcasting Act* (Canada). The CRTC does not regulate the rates MTS charges for its television services.

Outlook

The Company projects another year of solid financial performance in 2003, in support of its objective of creating shareholder value by pursuing strategies that sustain long-term, profitable growth. Following the achievements of 2002, which saw the Company re-emphasize its focus on core operations in Manitoba after the Bell West transaction, management expects revenues, EBITDA and EPS to each increase in the 3% to 6% range compared with the results achieved in MTS's baseline operations in 2002. The Company also is forecasting improved cash flows supported by a continuing strong balance sheet. MTS is committed to maintaining an attractive balance of risk and reward in its strategies to defend, transform and expand its core Manitoba businesses.

Management believes that 2003 is likely to be another year of consolidation and re-positioning among competitors and collaborators in the communications industry. The expectation of more cable and telecommunications convergence in residential services remains a distinct possibility. Management will be evaluating strategic options with respect to its

investment in Bell West in particular, and its position in the Canadian communications industry in general. MTS is committed to ensuring that the preservation and enhancement of shareholder value remains a top priority. For 2003, Bell West's operations are expected to deliver improved performance, reducing the negative impact to MTS's consolidated EPS to $0.35 to $0.40 compared with 2002 results of $0.52.

The growth in the Company's business for the foreseeable future is expected to be derived largely from a high-margin foundation of telecommunications and data networking services, with particularly strong outlooks for wireless, Internet and other broadband opportunities that include digital TV. Revenues from traditional operations, including local, long distance and directory services, together are forecast to be relatively stable in 2003. Some downward pressure on local services is expected from modest erosion in access services and market share arising from changing customer preferences for voice connectivity, such as wireless and competitor alternatives.

On an ongoing basis, MTS will build on its multi-year track record of improving operational efficiency through re-engineering initiatives, contract re-negotiations and group purchasing in support of its industry-leading levels of profitability as measured by EBITDA margins. In years past, management has successfully sought out opportunities to implement cost efficiencies in mature markets while funding profitable new growth initiatives. This approach will extend into 2003, with increased spending to support growth from wireless, high-speed Internet and TV services, offset by decreased expenditures in traditional operations. EBITDA margins are expected to remain at or near 2002 levels.

Specific business opportunities for growth and profitability include:

Wireless services

Strong double-digit growth in wireless is expected for the next several years. Wireless penetration in Manitoba is expected to continue to increase in 2003. Moreover, wireless data offerings present substantial longer-term growth potential. Management believes that MTS can differentiate itself through content offerings tailored to the Manitoba market and by exploiting 1xRTT capabilities deployed during a network upgrade in 2002. 1xRTT is a standard for digital cellular PCS service that facilitates new data capabilities and voice efficiencies. This network upgrade lays the foundation for providing advanced wireless services. Services that 1xRTT already has enabled include enhanced Web browsing, two-way messaging and instant access to the Internet and email.

High-speed Internet

Strong improvement in Internet revenues is forecast again for 2003, driven by the addition of approximately 15,000 customers for residential high-speed Internet. This growth is expected through increased market penetration and share gains. At the end of 2002, MTS's high-speed Internet service had been extended to 76% of Manitobans, including 96% of Winnipeg and Brandon customers. This provides an excellent opportunity to increase penetration levels in 2003 and beyond. In broadband, the challenge of building and maintaining the loyalty of high-speed Internet customers is a priority for 2003. This will be achieved through an increased focus on delivering superior customer service and marketing programs targeted at attracting more high-speed Internet customers by favourably comparing the MTS offering over competitor services. MTS dial-up customers will continue to be encouraged to migrate to higher-speed Internet offerings. In Internet markets, a further challenge is to increase profitability. Decreasing modem costs and improving sales and installation efficiencies are both expected to contribute to increased profitability in 2003.

MTS TV

In other broadband markets, the commercial launch of MTS TV, a service that integrates digital television, telephony and high-speed Internet, is an emerging opportunity with long-term potential. Service delivery is being facilitated by leveraging the Company's extensive network capabilities and, in particular, its broadband investments made over the past two

years. Following comprehensive technical and market trials through 2002, MTS launched its television service in early 2003. The MTS TV service has several competitive advantages over other digital TV offerings. Among them is the ability to deliver three simultaneous, fully digital video signals along with high-speed Internet access using a single set-top box.

The market context supporting MTS's growth into digital TV includes the increasing competition in telephony from cable companies that is occurring in other jurisdictions. Management believes this development will occur in its operating territory. As such, the launch of a digital TV service is partially a strategy to assist the Company in maintaining its profitable leadership position in Manitoba telephony markets. The digital TV market in Manitoba currently has a relatively low penetration rate, providing an excellent opportunity for the Company to enter the market with a "triple play" – telephony, high-speed Internet and TV. The deployment of network capabilities to support digital TV is being undertaken prudently using a measured investment approach. Some $10 million of capital was invested in 2002, with a further $30 million planned for 2003. The service is currently available to 9% of the Winnipeg market, with target coverage of 42% and 85% at the end of 2003 and 2005, respectively. Approximately 6,000 customers are forecast to subscribe to MTS's digital TV service in 2003.

e-business

Management remains optimistic about the longer-term e-business opportunity, and believes that there is excellent upside to deliver value from this segment by serving public and private sector customers in Canada as well as in select markets in the United States. MTS has positioned its e-business subsidiary, Qunara, to benefit from a rebound in information technology spending by tailoring its products and services to those areas where profitable growth is expected, together with continued careful management of costs. Qunara has differentiated competencies in the areas of risk management and information technology security, business information and content management, as well as Web services. Longer-term industry forecasts contemplate strong growth from these segments.

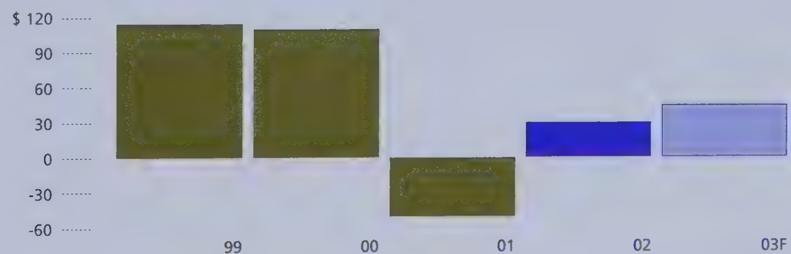
Liquidity and capital resources

MTS's capital requirements in 2003 are forecast at approximately $210 million. Capital will be invested primarily to support higher-growth operations, including the wireless and broadband lines of business, while also making ongoing improvements in traditional operations. MTS plans to invest a further $89 million in 2003 to support its 40% equity interest in Bell West. Under the terms of MTS's agreement with Bell Canada, MTS can recover all its funding made to Bell West commencing on April 11, 2002, including an 8% return on such funding, should the Company elect to exercise its put option on Bell West in February 2004.

Strong cash flow generation from MTS's operations is forecast again in 2003. In 2002, MTS's baseline operations generated free cash flow after the payment of dividends and capital expenditures of $31.1 million. This is expected to increase significantly to $45 million in 2003.

Baseline free cash flows

(in millions)



MTS's debt ratio at December 31, 2002 was 34.7%. Management believes a debt ratio in the 35% to 40% range to be an appropriate capital structure for the Company. Free cash flows in 2003, together with borrowings accessed through the Company's credit facilities, will be sufficient to fund MTS's obligation to Bell West and the continuation of its normal course issuer bid. Longer term, the Company has adequate capacity to borrow funds to support its operations and growth activities while maintaining its balance sheet strength. No changes to MTS's strong credit ratings are expected in 2003.

Risks

Management believes that 2003 has potential to be another good year for the Company, although there are material risks and other factors that could mitigate its success and ability to achieve forecasted results.

First among these risks is the economic and geopolitical environment in which MTS operates. The continuing uncertainty in global financial markets arising from the possibility of a significant international conflict could cause deterioration in economic conditions. These consequences could include higher interest rates and recessionary pressures from rising oil prices, which could negatively impact MTS's business in various ways, including access to low-cost investment capital.

As well, MTS's performance could be materially impacted by changes in competitive conditions abetted by a national or international telecommunications provider, cable company or alternative provider that would seek to compete more aggressively with MTS in Manitoba. The emergence of new technology capabilities potentially enabling a competitor to offer a value proposition comparable to MTS's would also present a business risk to the Company.

A material change in MTS's strategic partnership with Bell Canada could negatively impact MTS's business in various ways by making it necessary for the Company to find alternate means to deliver certain services which may result in higher costs to deliver such services. This risk has been significantly mitigated through agreements between MTS and Bell Canada that extend certain key commercial arrangements between the two companies for a period of at least three years beyond February 2004 or March 2004, the dates on which the respective parties may give notice to exercise the put and call options relating to the Company's ownership in Bell West.

Regulatory developments that affect MTS's ability to set and maintain profitable prices for its services are a material risk. The treatment of funds in the CRTC's regulatory deferral account could materially impact the Company's financial performance in 2003 and beyond. This account was established as part of the CRTC's May 2002 price cap decision, and MTS has made assumptions respecting the disposition of balances in this account. Management believes that it has been prudent in its assumptions. However, a future CRTC decision that differs significantly from MTS's assumptions could result in the Company's financial performance differing from its 2003 forecasts.

New accounting pronouncements

Section 3870, Stock-based Compensation and Other Stock-based Payments

Effective January 1, 2002, the Company adopted the recommendations of section 3870, Stock-based Compensation and Other Stock-based Payments, of the CICA Handbook. In 2002, MTS applied the intrinsic value based method of accounting for stock options issued to employees, which does not require expense recognition. Effective January 1, 2003, the Company adopted the fair value method of accounting for stock options and began recognizing compensation expense related to stock options.

Section 3062, Goodwill and Other Intangible Assets

Effective January 1, 2002, the Company adopted the recommendations of section 3062, Goodwill and Other Intangible Assets, of the CICA Handbook. Accordingly, the Company no longer records goodwill amortization. The Company assigned each of its unamortized goodwill balances to a reporting unit and tests goodwill for impairment on an annual basis, or more frequently if impairment indicators arise. The results of the goodwill impairment tests performed at December 31, 2002 indicated that there is no impairment in the value of goodwill.

Management's responsibility for consolidated financial statements

The accompanying consolidated financial statements of Manitoba Telecom Services Inc. and the information in the Management's discussion & analysis are the responsibility of management and have been approved by the Board of Directors.

The consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles, and necessarily include some amounts that are based on management's best estimates and judgments. Financial information presented elsewhere in the annual report is consistent with that in the consolidated financial statements.

In fulfilling its responsibilities, management has developed and maintains a system of internal controls, including written policies and procedures, segregation of duties and responsibilities and an internal audit program. This system is designed to provide reasonable assurance that assets are adequately accounted for and safeguarded, transactions are properly authorized and recorded, and the financial records are reliable for preparing the consolidated financial statements. The Company also maintains an employee Guide for Business Conduct, which requires employees to follow high ethical business standards, and a Corporate Disclosure Policy, which requires the public disclosure of all material information as required by securities regulators.

The Board of Directors carries out its responsibility for the consolidated financial statements and Management's discussion & analysis in the annual report principally through its Audit Committee. The Audit Committee meets periodically with management and with the internal and external auditors to discuss the results of audit examinations with respect to the adequacy of internal controls and to review and discuss the consolidated financial statements. The Audit Committee has recommended the consolidated financial statements and Management's discussion & analysis to the Board for approval.

The consolidated financial statements have been audited by Deloitte & Touche LLP, Chartered Accountants, who have full access to the Audit Committee, with and without the presence of management. Their report follows.

William C. Fraser, FCA
President & Chief Executive Officer

Wayne S. Demkey, CA
Executive Vice-President Finance & Chief Financial Officer

Audit committee report

To the Shareholders
Manitoba Telecom Services Inc.

The Audit Committee, which is composed entirely of outside Directors, oversees the financial reporting, control and accountability functions on behalf of the Board of Directors. The Audit Committee monitors and strengthens the independence of the external and internal audit functions by establishing a direct reporting relationship between the auditors and the Audit Committee, providing a forum for communication with the Board of Directors, and establishing a governance process over the engagement of the external auditors for any services other than the audit and review of the Company's annual or quarterly financial statements. A summary of the mandate of the Audit Committee is contained in the Company's Management Proxy Circular.

Each member of the Audit Committee has extensive financial experience, and at least one of the members is a financial expert with a comprehensive understanding of internal controls, Canadian generally accepted accounting principles, and the preparation and audit of financial statements.

The Audit Committee has met independently with each of management and the external auditors to discuss the audited financial statements, including the quality of internal controls, accounting principles and significant judgments affecting these audited financial statements. The Audit Committee has received written disclosure from the external auditor regarding their independence, as recommended by the Canadian Institute of Chartered Accountants. The Audit Committee also has discussed among themselves the information disclosed by management and the external auditors without their presence.

The Audit Committee has recommended the consolidated financial statements and Management's discussion & analysis to the Company's Board of Directors for approval.

Donald H. Penny, FCA, LL.D.
Chairman of the Audit Committee

Auditors' report

To the Shareholders
Manitoba Telecom Services Inc.

We have examined the consolidated balance sheets of Manitoba Telecom Services Inc. as at December 31, 2002 and 2001 and the consolidated statements of income, retained earnings and cash flow for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2002 and 2001 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants
Winnipeg, Manitoba
January 30, 2003

Consolidated statement of income

(in thousands)

Years ended December 31	2002	2001
Operating revenues		
Local services	$ 373,499	$ 382,103
Long distance services	205,536	201,867
Wireless services	137,379	120,618
Bell Intrigna	92,218	182,184
Internet services	35,960	26,815
Directory services	32,269	31,959
e-business	23,578	25,518
Miscellaneous	26,840	31,930
	927,279	1,002,994
Operating expenses		
Baseline operations	394,521	394,581
Restructuring costs (Note 2)	10,003	–
Bell Intrigna operations	111,330	240,438
Depreciation and amortization	224,441	226,190
	740,295	861,209
Operating income	186,984	141,785
Gain on sale of Bell Intrigna (Note 3)	94,190	–
Equity losses	(26,173)	–
Other income (expense)	3,940	(229)
Debt charges	(29,482)	(24,979)
Income before income taxes and non-controlling interest	229,459	116,577
Income taxes (Note 4)		
Current	76,018	89,596
Future	(4,421)	(26,114)
	71,597	63,482
Income before non-controlling interest	157,862	53,095
Non-controlling interest	5,999	20,590
Net income	$ 163,861	$ 73,685
Basic earnings per share	$ 2.55	$ 1.14
Diluted earnings per share	$ 2.53	$ 1.13

Consolidated statement of retained earnings

(in thousands)

Years ended December 31	2002	2001
Retained earnings, beginning of year	$ 204,881	$ 185,368
Net income	163,861	73,685
Dividends	(52,622)	(49,099)
Purchase of outstanding Common Shares (Note 11)	(18,839)	(5,073)
Retained earnings, end of year	$ 297,281	$ 204,881

Consolidated statement of cash flow

(in thousands)

Years ended December 31	2002	2001
Cash flows from operating activities		
Net income	$ 163,861	$ 73,685
Depreciation and amortization	224,441	226,190
Gain on sale of Bell Intrigna	(94,190)	–
Equity losses	26,173	–
Cash (used in) from changes in working capital	(67,888)	76,316
Non-controlling interest	(5,999)	(20,590)
Future income taxes	(4,421)	(26,114)
Other, net	(32,095)	(36,116)
Cash flows from operating activities	209,882	293,371
Cash flows from investing activities		
Capital expenditures, net	(222,208)	(380,613)
Increase in investments	(81,300)	(26,924)
Other	1,554	(130)
Cash flows used in investing activities	(301,954)	(407,667)
Cash flows from financing activities		
Dividends	(52,622)	(49,099)
Issuance of long-term debt	145,000	–
Repayment of long-term debt	(13,357)	–
(Repayment) issuance of notes payable, net	(4,000)	15,000
Purchase of outstanding Common Shares (Note 11)	(24,725)	(6,502)
Issuance of share capital (Note 11)	–	2,181
Issuance of share capital by subsidiary to non-controlling interest	9,000	62,327
Cash flows from financing activities	59,296	23,907
Decrease in cash and cash equivalents	(32,776)	(90,389)
Cash and cash equivalents, beginning of year	23,218	113,607
(Bank indebtedness) cash and cash equivalents, end of year	$ (9,558)	$ 23,218

Consolidated balance sheet

(in thousands)

December 31	2002	2001
ASSETS		
Current assets		
Cash and cash equivalents	$ –	$ 23,218
Accounts receivable	93,782	195,600
Prepaid expenses	16,480	18,332
Current portion of future income taxes (Note 4)	4,196	5,929
	114,458	243,079
Property, plant and equipment (Note 5)	1,060,757	1,289,180
Investments (Note 6)	372,086	16,689
Other assets (Note 7)	39,003	33,141
Future income taxes (Note 4)	1,561	48,102
Intangible assets (Note 8)	31,362	31,758
	$ 1,619,227	$ 1,661,949

	2002	2001
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Bank indebtedness	$ 9,558	$ –
Accounts payable and accrued liabilities	178,400	352,869
Advance billings and payments	25,994	25,207
Notes payable (Note 9)	11,000	15,000
Current portion of long-term debt (Note 10)	–	13,357
	224,952	406,433
Long-term debt (Note 10)	461,311	316,311
Deferred employee benefits	27,388	25,948
Future income taxes (Note 4)	16,925	11,719
	730,576	760,411
Non-controlling interest	–	99,401
Shareholders' equity		
Share capital (Note 11)	591,370	597,256
Retained earnings	297,281	204,881
	888,651	802,137
	$ 1,619,227	$ 1,661,949

Approved on the behalf of the Board

Chairman

Director

Notes to consolidated financial statements

For the years ended December 31, 2002 and 2001

1. Summary of significant accounting policies

Consolidation

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The consolidated financial statements include the accounts of Manitoba Telecom Services Inc. (the "Company") and its wholly owned subsidiaries, MTS Communications Inc., MTS Advanced Inc., Manitoba Telecom Services International Inc., AAA Alarm Systems Ltd., and Qunara Inc. The consolidated financial statements also include the accounts of Bell Intrigna Inc. to April 10, 2002 (Note 3).

Use of accounting estimates

The preparation of consolidated financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Revenue recognition

Revenues from local telecommunications, Internet and e-business services are recognized in the period the services are provided. Revenues from long distance and wireless airtime are recognized based on usage in the period the services are provided. Revenues from telecommunications and e-business related maintenance services are deferred and recognized over the period of the customer contract. Revenues from telecommunications and e-business related product sales are recognized once the product is installed and available for use. Directory revenues are recognized during the period the directory is in circulation.

Cash and cash equivalents (bank indebtedness)

Cash and cash equivalents (bank indebtedness) include cash on hand, net of bank overdrafts, and money market instruments, which are readily convertible into known amounts of cash.

Property, plant and equipment

Property, plant and equipment is recorded at original cost, including materials, direct labour and certain overhead costs associated with construction activity and an allowance for the cost of funds during construction. Depreciation is calculated on a straight-line basis over the estimated useful life of property, plant and equipment by applying rates that are based on a continuing program of engineering studies. The composite depreciation rate for the year ended December 31, 2002 was 7.5% (2001–7.5%).

Deferred costs

Deferred costs include cellular and PCS activation costs and home security customer installation costs that are amortized over the period of expected benefits, which is normally two years for cellular and PCS, and ten years for home security customers. Deferred costs also include costs associated with the issuance of long-term debt, which are amortized over the term of the issue.

Intangible assets

Intangible assets are comprised of goodwill and other intangible assets. Goodwill represents the excess of the aggregate purchase price over the fair value of the identifiable net tangible assets and intangible assets purchased at the dates of acquisition. Other intangible assets represent customer contracts and other contractual arrangements, which are being amortized over the estimated period of benefit of one to ten years.

Effective January 1, 2002, the Company adopted the recommendations of section 3062, Goodwill and Other Intangible Assets, of the Canadian Institute of Chartered Accountants' Handbook. The Company has assigned each of its unamortized goodwill balances to a reporting unit and tests goodwill for impairment on an annual basis, or more frequently if impairment indicators arise. Accordingly, the Company no longer records goodwill amortization. The following table is presented to provide information about net income and earnings per share amounts for the year ended December 31, 2001, adjusted to exclude the effects of goodwill amortization:

	Net income (in thousands)	Earnings per share	Diluted earnings per share
As previously reported	$ 73,685	$ 1.14	$ 1.13
Goodwill amortization, net of tax	3,845	0.06	0.06
Restated	$ 77,530	$ 1.20	$ 1.19

1. Summary of significant accounting policies (continued)

Translation of foreign currencies

Foreign currencies have been translated into Canadian dollars at rates of exchange on the following basis:

i. Monetary assets and liabilities at effective rates prevailing at the end of the year; and
ii. Revenues and expenses at rates prevailing at the respective transaction dates.

Financial instruments

The Company's financial assets and liabilities are initially recorded at the related transaction amount, which is normally the historical cost. When the carrying value of a financial asset exceeds its fair value on a basis that is other than temporary, the carrying value is reduced to the fair value.

With the exception of long-term debt, the carrying value of the Company's financial assets and liabilities, which are subject to normal trade terms, approximates the fair value. The Company's long-term debt, with a cost of $461.3 million (2001 – $329.7 million), has a fair market value of $496.6 million as at December 31, 2002 (2001 – $356.0 million). During the years ended December 31, 2002 and 2001, the Company has not utilized any derivative financial instruments.

The Company is exposed to credit risk from its customers. This risk is minimized by the Company's large and diverse customer base.

Income taxes

The Company uses the liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are determined based on the differences between the tax basis of an asset or liability and its carrying amount, and are measured using substantively enacted tax rates, that, at the balance sheet date, are expected to be in effect when the differences are expected to reverse.

Employee future benefits

Pension and other employee future benefit costs are determined using the projected benefit method prorated on years of service and based on best estimate assumptions. The discount rate used to calculate the accrued benefit obligation is determined by reference to market interest rates of high quality corporate bonds at measurement date. Market-related values of pension fund assets are calculated using a four-year moving average of year-end market values. The excess of the net actuarial gain or loss over 10% of the greater of the benefit obligation and the market-related value of plan assets is amortized over the expected average remaining service life of active employees. Transitional assets and obligations, arising upon implementation of the recommendations in section 3461, Employee Future Benefits, of the Canadian Institute of Chartered Accountants' Handbook, are amortized on a straight-line basis over the expected average remaining service life of active employees.

Stock-based compensation

Effective January 1, 2002, the Company adopted the recommendations of section 3870, Stock-based Compensation and Other Stock-based Payments, of the Canadian Institute of Chartered Accountants' Handbook. The Company uses the intrinsic value based method of accounting for stock options granted to employees. Accordingly, no compensation cost is recognized for the Company's stock option plan when options are granted (Note 11). Consideration received on the exercise of stock options is credited to share capital.

2. Restructuring costs

In the fourth quarter of 2002, the Company recorded a pre-tax restructuring charge in the amount of $10.0 million. The restructuring charge represents severance costs and other employee related costs, resulting from a decision to streamline operations. The restructuring program is expected to be substantially completed in 2003.

3. Bell West transaction

Effective April 11, 2002, the Company entered into an agreement with Bell Canada, BCE Nexxia Inc. ("Bell Nexxia") and Bell Intrigna Inc. ("Bell Intrigna") whereby Bell Intrigna acquired the operating assets of Bell Nexxia in Alberta and British Columbia as well as certain wireline assets owned by Bell Canada west of Ontario, in exchange for the issuance of shares. After this transaction, this entity continued operations under the name Bell West Inc., ("Bell West"), owned 60% by Bell Canada and 40% by Manitoba Telecom Services Inc. As a result of this transaction, the Company began accounting for its 40% investment on an equity basis, beginning April 11, 2002, and recognized a pre-tax gain in the amount of $94.2 million on reduction of its ownership interest.

3. Bell West transaction (continued)

The Bell West shareholders' agreement provides the Company with certain liquidity provisions in respect of its investment in Bell West. In February 2004, the Company can sell its interest in Bell West to Bell Canada at a guaranteed floor value of $458 million plus incremental funding, including an 8% return on that incremental funding. In March 2004, Bell has the option to purchase the Company's interest in Bell West at the greater of the floor value and fair market value. The floor value at December 31, 2002 is $538 million.

4. Income taxes

The balances of future income taxes as at December 31, 2002 and 2001, represent the future benefit of unused tax losses, and temporary differences between the tax and accounting bases of assets and liabilities. The temporary differences are mainly due to differences between the net book value and undepreciated capital cost of property, plant and equipment, and the net book value and tax values of goodwill, deferred charges and employee benefit plans. A reconciliation of the statutory income tax rate to the effective income tax rate is as follows:

	2002	2001
Combined basic federal and provincial statutory income tax rate	42.6%	45.1%
Large corporations tax	0.4	1.5
Impact of future federal and provincial tax rate reductions	0.5	6.7
Gain on sale of Bell Intrigna subject to capital gains rates	(9.2)	–
Adjustment to future taxes to reflect change to equity accounting method for investment in Bell West	(6.2)	–
Other items	3.1	1.2
	31.2%	54.5%

During 2002, the Company paid $150.4 million of income taxes, of which $76.1 million was paid in respect of 2001 income taxes (2001 – net refund of $2.3 million).

5. Property, plant and equipment

(in thousands)

	2002		2001	
	Cost	Accumulated depreciation	Cost	Accumulated depreciation
Network equipment and outside plant	$ 2,044,735	$ 1,273,503	$ 2,245,127	$ 1,353,095
General equipment and other	368,890	216,866	462,893	248,179
Buildings	158,988	92,285	139,645	85,252
Plant under construction	54,717	–	100,427	–
Materials and supplies	9,833	–	21,650	–
Land	6,248	–	5,964	–
	$ 2,643,411	$ 1,582,654	$ 2,975,706	$ 1,686,526
Net book value	$ 1,060,757		$ 1,289,180	

6. Investments

(in thousands)

	2002	2001
Investment in Bell West, at equity	$ 354,424	$ –
Investment, at equity	671	1,801
Long-term investment, at cost	12,251	10,042
Long-term disability fund, at cost	4,740	4,846
	$ 372,086	$ 16,689

The Company uses the equity method to account for its investment in companies subject to significant influence.

The market value of the long-term disability fund is $5.6 million at December 31, 2002 (2001 – $5.7 million).

7. Other assets

(in thousands)	2002	2001
Deferred cellular and PCS activation costs	$ 19,133	$ 20,169
Deferred alarm installation costs	6,495	4,798
Other deferred costs	4,329	8,174
Pension asset	9,046	–
	$ 39,003	$ 33,141

The carrying value of deferred costs is presented net of accumulated amortization. Total amortization of deferred costs charged to operations amounts to $20.8 million in 2002 (2001 – $16.2 million).

8. Intangible assets

(in thousands)	2002	2001
Goodwill	$ 30,205	$ 30,205
Other intangible assets	1,157	1,553
	$ 31,362	$ 31,758

As at December 31, 2002, other intangible assets were recorded at a cost of $1.9 million less accumulated amortization of $0.7 million. Total amortization of other intangible assets charged to operations amounts to $0.4 million in 2002 (2001 – $0.3 million).

9. Notes payable

Notes payable is comprised of short-term commercial paper, and as at December 31, 2002, has an interest rate of 2.88% and a maturity date of January 7, 2003.

At December 31, 2002, the Company has lines of credit available in the amount of $150 million. These credit facilities consist of $100 million supporting the commercial paper program and a $50 million committed operating line of credit for cash management purposes and the issuance of letters of credit. The Company has guaranteed $8.4 million of a line of credit supporting an irrevocable letter of credit issued by Bell West Inc.

10. Long-term debt

(in thousands)	2002	2001
Medium Term Note, 9.00%, due January 27, 2002	$ –	$ 13,357
Medium Term Note, 4.20%, due September 27, 2004	75,000	–
Medium Term Note, 7.75%, due March 1, 2005	9,691	9,691
Medium Term Note, 8.75%, due May 15, 2005	34,891	34,891
Medium Term Note, 7.75%, due September 30, 2005	15,501	15,501
Medium Term Note, 8.00%, due April 17, 2006	48,106	48,106
Medium Term Note, 9.00%, due May 2, 2007	14,663	14,663
Medium Term Note, 6.50%, due July 2, 2007	80,000	80,000
Medium Term Note, 8.50%, due September 29, 2007	11,880	11,880
Medium Term Note, 9.125%, due April 3, 2008	27,699	27,699
Medium Term Note, 5.90%, due June 2, 2008	62,000	62,000
Medium Term Note, 5.85%, due February 23, 2009	70,000	–
Medium Term Note, 8.625%, due September 8, 2010	11,880	11,880
	461,311	329,668
Less: Current portion of long-term debt	–	13,357
	$ 461,311	$ 316,311

Interest expense on long-term debt, including amortization of debt issue costs, amounts to $28.2 million in 2002 (2001 – $24.9 million). Total interest paid during 2002 amounts to $27.4 million (2001 – $24.8 million).

11. Share capital

Authorized
Unlimited number of Preference Shares
Unlimited number of Common Shares

Preference Shares
The Preference Shares are of two classes, issuable in one or more series, for which the Directors of the Company may fix the number of shares and determine the designation, rights, privileges, restrictions and conditions. A class of Preference Shares of a single series has been designated as Class A Preference Shares.

The attributes of the Class A Preference Shares are identical in all respects to those of the Common Shares except for the following:

- The Class A Preference Shares are not entitled to receive notice of, or attend or vote at, meetings of shareholders on resolutions electing Directors.
- The Class A Preference Shares are convertible, at any time, into Common Shares, on a one-for-one basis.
- Dividends on the Class A Preference Shares will be payable on the same dates as dividends are paid on the Common Shares of the Company, using the same record date for determining holders of Class A Preference Shares entitled to dividends as the record date for Common Share dividends, in an amount per Class A Preference Share equal to the corresponding amount of dividends per Common Share.

The Class A Preference Shares participate in the earnings of the Company on an equivalent basis with the Common Shares and, therefore, are included in the weighted average number of shares outstanding for the purposes of calculating basic earnings per share.

Common Shares
The holders of the Common Shares are entitled to one vote per Common Share on all matters to be voted on by the holders of Common Shares and are entitled to receive such dividends as may be declared by the Board of Directors of the Company.

Issued

(in thousands, except number of shares)	2002		2001	
	Number	Value	Number	Value
Class A Preference Shares				
Opening balance	7,779,556	$ 185,868	7,779,556	$ 185,868
Conversion to Common Shares	(6,400,000)	(152,908)	–	–
	1,379,556	$ 32,960	7,779,556	$ 185,868
Common Shares				
Opening balance	56,724,044	$ 411,388	56,788,544	$ 410,636
Purchased for cancellation	(811,615)	(5,886)	(197,100)	(1,429)
Issued pursuant to stock options	–	–	132,600	2,181
Conversion of Preference Shares	6,400,000	152,908	–	–
	62,312,429	$ 558,410	56,724,044	$ 411,388
Total share capital		$ 591,370		$ 597,256

During the year, the Company purchased 811,615 Common Shares for cancellation for cash consideration of $24.7 million under the terms of its normal course issuer bid (2001 – 197,100 Common Shares for $6.5 million). The excess of the purchase price over the stated capital in the amount of $18.8 million was charged to retained earnings (2001 – $5.1 million). During the year, 6,400,000 Class A Preference Shares were converted by the holder into 6,400,000 Common Shares. This transaction was recorded at the carrying value of the Class A Preference Shares.

11. Share capital (continued)

Employee share ownership plan

Effective January 1, 1998, the Company implemented an employee share ownership plan under which eligible employees can purchase Common Shares of the Company, through regular payroll deductions, by contributing between 1% and 6% of salary. For every $4 contributed by an employee, the Company contributes $1. The Company records its contributions as a component of operating expenses. During 2002, the Company contributed $1.1 million (2001 – $0.9 million) to this plan. All Common Shares purchased on behalf of employees under this plan during the year were purchased at fair market value.

Stock options

The Company has a stock option plan under which the Board of Directors may grant options to purchase Common Shares to employees and Directors at a price not less than the weighted average of the prices at which the Common Shares traded on The Toronto Stock Exchange for the five days immediately preceding the date of grant of the option. The options are exercisable during a period not to exceed ten years. The right to exercise the options accrues over a period of five years of continuous employment at a rate of 20% per year effective on the anniversary of the date on which the options were granted. The Company has reserved a maximum of 3.5 million Common Shares to meet rights outstanding under the stock option plan. The following tables provide further information on stock options that have been granted:

	2002		2001	
	Number of shares	Weighted average exercise price	Number of shares	Weighted average exercise price
Outstanding, beginning of year	1,715,750	$ 26.47	1,094,150	$ 18.23
Granted	496,500	33.94	754,200	36.66
Terminated	(461,000)	35.68	–	–
Exercised	–	–	(132,600)	16.45
Outstanding, end of year	1,751,250	$ 26.16	1,715,750	$ 26.47
Exercisable	782,170	$ 18.90	523,020	$ 16.65

Year granted	Options outstanding	Exercisable	Weighted average exercise price	Expiry date
2002	455,500	–	$ 33.95	2012
2001	334,200	66,840	37.66	2011
2000	226,000	90,400	25.18	2010
1999	236,550	141,930	19.04	2009
1998	80,000	64,000	18.06	2008
1997	419,000	419,000	14.63	2007

The Company uses the intrinsic value based method of accounting for stock options granted to employees. Had the Company used the fair value based method of accounting for stock options granted to employees, the pro forma net income and earnings per share for the year ended December 31, 2002, would be $162.5 million and $2.53, respectively. In calculating the pro forma net income and earnings per share, the Company uses the Black-Scholes option pricing model. The following assumptions were made in applying this model: risk free interest rate of 5.1%, expected life of the options granted is six years, expected volatility of 23.1%, and expected dividend yield of 2.6%. The weighted average grant date fair value of options granted during the year is $8.31.

12. Employee future benefits

The Company has a contributory defined benefit best average pension plan (the "Pension Plan"), which covers the employees of Manitoba Telecom Services Inc., MTS Communications Inc., MTS Advanced Inc., and Manitoba Telecom Services International Inc. The Pension Plan provides pensions based on length of service and best average earnings. The Company's policy is to fund the Pension Plan as determined through periodic actuarial valuations. Contributions reflect actuarial assumptions regarding salary projections and future service benefits. The Company also provides supplemental pension arrangements and other non-pension employee future benefits that are unfunded with the exception of the long-term disability plan for which the Company has dedicated assets set aside to fund benefits. These assets are recorded on the Company's financial statements.

The actuarial assumptions used in determining the Company's accrued benefit obligations for December 31, 2002 include a discount rate of 7.00% (2001 – 7.50%) for pension liabilities and 6.75% (2001 – 6.75%) for the non-pension employee future benefits liabilities, expected long-term rate of return on plan assets of 7.50% (2001 – 7.50%), and a rate of compensation increase of 3.75% (2001 – 4.00%).

In 2002, the Company recognized a defined benefit pension plan credit of $7.6 million (2001 – $6.8 million) which is comprised of a current service cost (net of employee contributions) of $11.6 million (2001 – $12.3 million), interest on the accrued benefit obligation of $63.0 million (2001 – $58.6 million), an expected return on plan assets of $71.3 million (2001 – $66.8 million), and the amortization of the transitional asset of $10.9 million (2001 – $10.9 million).

The aggregate accrued benefit obligation of the Company's defined benefit pension plans of $900.0 million at December 31, 2002 (2001 – $841.3 million), is comprised of the accrued benefit obligation at January 1, 2002 of $841.3 million (2001 – $851.1 million), current service cost of $21.2 million (2001 – $21.3 million), interest on the accrued benefit obligation of $63.0 million (2001 – $58.6 million), the actuarial loss on the obligation of $19.0 million (2001 – actuarial gain of $38.4 million), and benefit payments and transfers of $44.5 million (2001 – $51.3 million). Included in the accrued benefit obligation at year-end is an accrued benefit obligation totaling $4.1 million in respect of plans that are not funded (2001 – $3.6 million).

The fair value of the Pension Plan assets at December 31, 2002 of $856.5 million (2001 – $915.7 million) is comprised of the fair value of plan assets at January 1, 2002 of $915.7 million (2001 – $964.8 million), employee contributions of $9.6 million (2001 – $9.0 million), the actual loss on plan assets of $24.3 million (2001 – $6.8 million), and benefits paid during the year of $44.5 million (2001 – $51.3 million). The excess of the accrued benefit obligation over the fair value of the Pension Plan assets at December 31, 2002 is $43.5 million (2001 – excess of Pension Plan assets over accrued benefit obligation of $74.4 million).

At December 31, 2002, the accrued pension benefit asset recognized in the financial statements for the Company's contributory defined benefit pension plan is $9.0 million and the accrued pension benefit liability recognized in the financial statements for the Company's supplemental pension arrangements is $2.7 million (2001 – net accrued benefit liability $1.3 million). The unamortized net actuarial loss and unamortized net transitional asset of the Company's defined benefit pension plans are $174.7 million (2001 – $60.1 million) and $124.9 million (2001 – $135.8 million), respectively.

In 2002, the Company recognized an expense relating to the Company's other benefit plans of $1.8 million (2001 – $1.7 million), which is comprised of a current service cost of $1.4 million (2001 – $1.3 million), interest on the accrued benefit obligation of $0.9 million (2001 – $0.9 million), an expected return on plan assets of $0.4 million (2001 – $0.4 million), and the amortization of the transitional asset of $0.1 million (2001 – $0.1 million).

The aggregate accrued benefit obligation of the Company's other defined benefit plans of $11.3 million at December 31, 2002 (2001 – $13.6 million) is comprised of the accrued benefit obligation at January 1, 2002 of $13.6 million (2001 – $12.6 million), current service cost of $1.4 million (2001 – $1.3 million), interest on the accrued benefit obligation of $0.9 million (2001 – $0.9 million), the actuarial gain on the obligation of $3.4 million (2001 – actuarial loss of $0.1 million), and benefit payments of $1.2 million (2001 – $1.3 million).

The fair value of the other defined benefit plans' assets recorded in the financial statements at December 31, 2002 of $5.6 million (2001 – $5.7 million) is comprised of the fair value of plan assets at the beginning of the year of $5.7 million (2001 – $5.9 million), employer contributions of $1.3 million (2001 – $1.3 million), the actual loss on plan assets of $0.2 million (2001 – $0.2 million), and benefits paid during the year of $1.2 million (2001 – $1.3 million). The excess of the accrued benefit obligation over plan assets at December 31, 2002 is $5.7 million (2001 – $7.9 million).

At December 31, 2002, the accrued other defined benefit plans' liability recognized in the financial statements is $12.6 million (2001 – $12.2 million), and the book value of the other benefit plans' assets is $4.7 million (2001 – $4.8 million). The unamortized net actuarial gains and unamortized net transitional asset of the Company's other defined benefit plans are $1.3 million (2001 – net actuarial loss of $1.5 million) and $0.9 million (2001 – $1.0 million), respectively.

13. Acquisitions

During 2001, the Company acquired the following businesses:

- 100% ownership interest in The EXOCOM Group Inc. (January 1, 2001), an e-business service provider;
- The operating assets of Portage Internet Connection (February 6, 2001), Pangea.ca Inc. (April 5, 2001) and Web4 Internet Services (December 1, 2001), providers of Internet access services;
- The operating assets of Creative Home Systems Inc. (May 2, 2001) and Knight Security and Communications Inc. (July 3, 2001), providers of alarm monitoring services; and
- The operating assets of Click-Find-Save Inc. (September 14, 2001), a provider of on-line coupons and advertising.

These acquisitions are accounted for using the purchase method, and the operating results of these businesses are included in the consolidated operating results from the effective date of acquisition. Details of assets and liabilities acquired in 2001 are as follows:

(in thousands)	EXOCOM	Other purchases	Total
Assets	$ 6,674	$ 289	$ 6,963
Identifiable intangible assets	1,000	681	1,681
Current liabilities	(3,937)	(241)	(4,178)
Net identifiable assets acquired	3,737	729	4,466
Goodwill	21,366	1,092	22,458
Total cash consideration	$ 25,103	$ 1,821	$ 26,924

14. Segmented information

As at December 31, 2002, the Company has one reportable operating segment: MTS Communications, which provides a full range of local, long distance, data, wireless, Internet access, security system and telecommunications-related services. Prior to April 11, 2002, the Company had another reportable operating segment: Bell Intrigna Inc. ("Bell Intrigna"), a competitive local exchange carrier, providing telecommunications products and services to business customers in Alberta and British Columbia. As of April 11, 2002, the Company discontinued the consolidation of the results of Bell Intrigna and began recording the results of Bell West on an equity basis (Notes 1 and 3). Bell West is not a reportable segment. Revenues from segments below the quantitative thresholds are attributable to two operating segments of the Company. These segments are MTS Advanced Inc., which provides directory publishing and media services, and Qunara Inc., which provides e-business services.

The Company evaluates performance based on EBITDA (earnings before interest, taxes, depreciation, amortization, equity losses and other income). The Company accounts for inter-segment sales and transfers as if the sales or transfers were to third parties, that is, at prices that approximate current market prices.

The following table provides further segmented information:

(in $ millions)	MTS Communications		Bell Intrigna		All other segments		Total	
	2002	2001	**2002**	2001	**2002**	2001	**2002**	2001
Operating revenue – external	**778.1**	762.9	**92.2**	182.2	**57.0**	57.9	**927.3**	1,003.0
Operating revenue – internal	**3.4**	3.6	**–**	–	**27.0**	26.6	**30.4**	30.2
EBITDA	**416.2**	403.8	**(19.1)**	(58.2)	**14.3**	22.4	**411.4**	368.0
Depreciation and amortization	**211.1**	195.9	**8.6**	21.8	**4.7**	8.5	**224.4**	226.2
Total assets	**1,375.6**	1,426.8	**–**	409.5	**463.4**	110.6	**1,839.0**	1,946.9
Goodwill	**2.2**	2.2	**–**	–	**28.0**	28.0	**30.2**	30.2
Capital expenditures, net	**207.3**	254.8	**8.6**	116.2	**6.3**	9.6	**222.2**	380.6

14. Segmented information (continued)

Reconciliations of net income and assets are as follows:

(in millions)	2002	2001
Net income		
Total EBITDA	$ 411.4	$ 368.0
Depreciation and amortization	(224.4)	(226.2)
Gain on sale of Bell Intrigna	94.2	–
Equity losses	(26.2)	–
Other income (expense)	3.9	(0.2)
Debt charges	(29.5)	(25.0)
Income tax expense	(71.6)	(63.5)
Non-controlling interest	6.0	20.6
Consolidated net income	$ 163.8	$ 73.7
Assets		
Total assets for operating segments	$ 1,839.0	$ 1,946.9
Elimination of inter-segment receivables	(219.7)	(285.0)
Consolidated total assets	$ 1,619.3	$ 1,661.9

15. Commitments and contingencies

Lease commitments

The Company rents buildings and construction and other equipment under operating leases. Future minimum lease commitments are as follows:

Year	(in thousands)
2003	$ 6,024
2004	4,770
2005	4,317
2006	3,164
2007	1,054

Contractual obligations

The Company has entered into various long-term contractual commitments for services required in the normal course of operations. The aggregate annual contractual commitments for these services in each of the five following fiscal years are as follows:

Year	(in thousands)
2003	$ 19,004
2004	17,530
2005	17,624
2006	12,871
2007	12,150

The Company also has provided guarantees totaling a maximum of $48 million in favour of the surety under a performance bond and a labour and material payment bond issued to Bell West Inc. in respect of its contractual commitment with the Government of Alberta relating to the construction of a high-speed telecommunications network in Alberta.

16. Related party transactions

The Company has transactions with related parties in the normal course of operations at prevailing market prices and under normal trade terms. Related parties include Bell Canada, its parent, subsidiaries and significantly influenced affiliates (collectively, "Bell"). The Company is subject to significant influence by Bell due to Bell Canada's ownership of Class A Preference Shares and Common Shares and Bell's representation on the Board of Directors.

During the year, the Company made purchases from related parties totaling $60.8 million (2001–$126.3 million) and sales to related parties totaling $244.9 million (2001–$127.4 million). As at December 31, 2002, the net amount due from related parties totaled $0.1 million (2001–$17.4 million). The Company also pays amounts to and receives amounts from Bell for transiting and terminating long distance minute traffic. These amounts are in the normal course of operations and are at prevailing market prices.

17. Comparative figures

The prior period figures have been reclassified where necessary to conform to 2002 presentation.

Five years in review

Not subject to auditors' report

	2002	2001	2000	1999	1998
Financial information					
(in $ thousands, except earnings per share & ratios)					
Consolidated operations					
Total operating revenues[1]	927,279	1,002,994	822,265	741,919	716,765
Total operating expenses[1]	740,295	861,209	656,923	607,205	587,755
Operating income	186,984	141,785	165,342	134,714	129,010
Debt charges	29,482	24,979	25,589	29,947	34,055
Equity losses in Bell West[2]	26,173	–	–	–	–
Gain on sale of Bell Intrigna[2]	94,190	–	–	–	–
Net income	163,861	73,685	100,546	93,931	95,374
Earnings per share ($)	2.55	1.14	1.55	1.34	1.36
EBITDA[3]	411,425	367,975	360,941	324,821	313,963
Dividends	52,622	49,099	49,170	47,963	47,603
Capital expenditures, net	222,208	380,613	270,253	169,359	166,416
Baseline operations[4]					
Baseline operating revenues[1]	835,061	820,810	764,125	739,677	716,765
Baseline net income	113,519	112,272	112,995	100,277	91,234
Baseline earnings per share ($)	1.77	1.74	1.74	1.43	1.30
Baseline EBITDA	440,540	426,230	385,753	335,080	313,963
Baseline EBITDA margin (%)	52.7	51.9	50.5	45.3	43.8
Consolidated balance sheet					
Total assets	1,619,227	1,661,949	1,468,168	1,321,394	1,299,236
Property, plant and equipment, net book value	1,060,757	1,289,180	1,110,645	1,022,615	1,030,874
Long-term debt and notes payable[5]	472,311	344,668	329,668	331,070	367,836
Total debt to total invested capital (%)	34.7	30.1	29.7	31.3	34.1
Shareholders' equity	888,651	802,137	781,872	727,124	710,819
Baseline operational statistics					
Long distance minutes (in thousands)	1,219,005	1,236,813	1,199,015	1,061,457	821,576
Cellular customers	234,062	206,447	169,140	143,693	123,013
Internet customers	117,554	97,089	73,381	64,901	46,131
Number of employees	3,566	3,586	3,125	3,273	3,378

[1] Figures for 1998 and 1999 were restated to conform to the presentation for bad debt expense and cellular roaming costs first adopted in 2000. Bad debt expense and amounts paid to other carriers for cellular roaming, previously netted against miscellaneous revenues and wireless revenues, respectively, are now included as operations expense. Figures for 1998 were also restated to conform to presentation for contribution and long distance expenses first adopted in 1999. Amounts paid to carriers for transiting and terminating long distance minutes traffic and contribution payments to the CRTC's Central Fund, previously netted against operating revenues, are now included as expenses.

[2] Effective April 11, 2002, the Company entered into an agreement with Bell Canada, BCE Nexxia Inc. ("Bell Nexxia") and Bell Intrigna Inc. ("Bell Intrigna") whereby Bell Intrigna acquired the operating assets of Bell Nexxia in Alberta and British Columbia as well as certain wireline assets owned by Bell Canada west of Ontario, in exchange for this issuance of shares. After this transaction, this entity continued operations under the name Bell West Inc., owned 60% by Bell Canada and 40% by Manitoba Telecom Services Inc. As a result of this transaction, the Company began accounting for its 40% investment on an equity basis, beginning April 11, 2002 and recognized a pre-tax gain of $94.2 million on reduction of its ownership interest.

[3] Earnings before interest, taxes, depreciation, amortization, equity losses and other income (expense).

[4] Baseline results exclude a one-time restructuring charge associated with MTS's workforce reduction initiative in 2002, the impact of Bell Intrigna in 2002, 2001, 2000 and 1999, the impact of Bell West in 2002, the impact of the gain on sale of Bell Intrigna in 2002 and the impact of the gain on sale of shares in Alouette Telecommunications in 1998.

[5] Includes current portion of long-term debt.

Investor information

Manitoba Telecom Services Inc.

Subsidiaries
MTS Communications Inc.
MTS Advanced Inc.
Qunara Inc.
AAA Alarm Systems Ltd.
Manitoba Telecom Services International Inc.

Corporate headquarters
P.O. Box 6666
333 Main Street
Winnipeg, Manitoba R3C 3V6
http://www.mts.ca

Investor relations
(for additional investor information)
P.O. Box 6666
333 Main Street, Room MP20B
Winnipeg, Manitoba R3C 3V6
Telephone: 1-888-544-5554

Corporate communications
(for media and general inquiries)
P.O. Box 6666
333 Main Street, Room MP18C
Winnipeg, Manitoba R3C 3V6
Telephone: 1-800-565-1936 or (204) 941-8244

Share transfer agent and registrar

Computershare Trust Company of Canada
Suite 1190
201 Portage Avenue
Winnipeg, Manitoba R3B 3K6
Telephone: 1-888-267-6555

Market trading information

The Company's Common Shares are listed on The Toronto Stock Exchange. The trading symbol is MBT.

Dividends*

RECORD DATE	PAYMENT DATE
March 15, 2003	April 15, 2003
June 15, 2003	July 15, 2003
September 15, 2003	October 15, 2003
December 15, 2003	January 15, 2004

* Subject to approval by Board of Directors

Annual meeting

The Annual Meeting of shareholders of MTS will be held at The Fort Garry Hotel, Provencher Room, Winnipeg, Manitoba, on April 29, 2003, at 11:00 a.m.

Duplicate annual reports

If you have received duplicate copies of this annual report, please call MTS Corporate Communications at 1-800-565-1936 or (204) 941-8246.

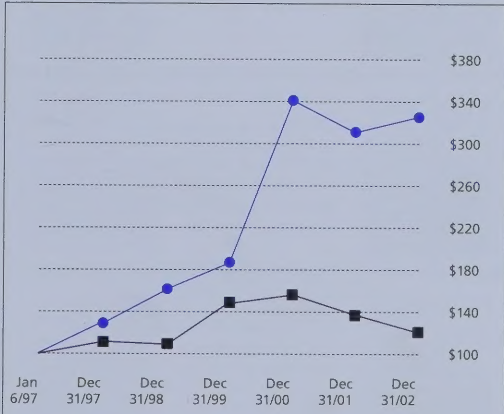
Investment information online

MTS publishes investor information, including quarterly reports, dividend and special notices, on its Web site at http://www.mts.ca.

Performance graph

The following graph compares the change over the last six years in the shareholder cumulative total return on the Common Shares of the Corporation with the cumulative total return of the S&P/TSX Composite Index, assuming a $100 investment at the initial offering price of $13.00 and reinvestment of dividends.

Share performance graph



100	129.04	166.31	185.53	340.12	313.49	328.63	MTS
100	114.95	112.96	148.79	159.76	139.74	122.41	S&P/TSX Comp.

MTS Management Committee

William C. Fraser, FCA

President & Chief Executive Officer
Manitoba Telecom Services Inc.
Chief Executive Officer
MTS Communications Inc.
Chairman & Chief Executive Officer
MTS Advanced Inc. and Qunara Inc.
Winnipeg, Manitoba

Bryan J. Luce

Vice-President Human Resources
Manitoba Telecom Services Inc.
Winnipeg, Manitoba

Cheryl Barker, CA

President & Chief Operating Officer
MTS Communications Inc.
Winnipeg, Manitoba

Bonnie Staples-Lyon

Vice-President Corporate Communications
Manitoba Telecom Services Inc.
Winnipeg, Manitoba

Wayne S. Demkey, CA

Executive Vice-President Finance &
Chief Financial Officer and
Corporate Controller
Manitoba Telecom Services Inc.
Winnipeg, Manitoba

Kelvin A. Shepherd, P.Eng.

Vice-President Network Services &
Chief Technology Officer
MTS Communications Inc.
Winnipeg, Manitoba

Peter J. Falk, Q.C.

Executive Vice-President
Business Development
General Counsel & Corporate Secretary
Manitoba Telecom Services Inc.
Winnipeg, Manitoba

Patricia A. Solman, CA

Vice-President Customer Care
MTS Communications Inc.
Winnipeg, Manitoba

Roger H. Ballance, P.Eng.

Executive Vice-President
Sales & Marketing
MTS Communications Inc.
Chief Marketing Officer
Manitoba Telecom Services Inc.
Winnipeg, Manitoba

Stanley M. Kurtas

Vice-President Marketing
MTS Communications Inc.
Winnipeg, Manitoba

David C. Rourke, P.Eng.

President & Chief Operating Officer
MTS Advanced Inc.
Winnipeg, Manitoba

Nicholas M. Curry

Vice-President Business Transformation &
Information Technology
MTS Communications Inc.
Winnipeg, Manitoba

Officers of Manitoba Telecom Services Inc.

Thomas E. Stefanson, CA
Chairman
Manitoba Telecom Services Inc.
and MTS Communications Inc.

William C. Fraser, FCA
President & CEO
Manitoba Telecom Services Inc.
CEO, MTS Communications Inc.
Chairman & CEO
MTS Advanced Inc.
and Qunara Inc.

Cheryl Barker, CA
President & COO
MTS Communications Inc.

Wayne S. Demkey, CA
Executive Vice-President
Finance & CFO and
Corporate Controller
Manitoba Telecom Services Inc.

Peter J. Falk, Q.C.
Executive Vice-President
Business Development
General Counsel &
Corporate Secretary
Manitoba Telecom Services Inc.

Roger H. Ballance, P.Eng.
Executive Vice-President
Sales & Marketing
MTS Communications Inc.
Chief Marketing Officer
Manitoba Telecom Services Inc.

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President & COO
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Jeffrey C. Rohne
President & COO
Qunara Inc.

Bryan J. Luce
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Human Resources
Manitoba Telecom Services Inc.

Brenda M. McInnes, CA
Treasurer
Manitoba Telecom Services Inc.

MTS Board of Directors

Thomas E. Stefanson, CA

Chairman, Manitoba Telecom Services Inc. and MTS Communications Inc.
Mr. Stefanson has been Chairman of the MTS Board of Directors since 1989. He is a member of the Governance Committee.

Donald H. Penny, FCA, LL.D.

Chairman, Meyers Norris Penny, LLP
Mr. Penny has been a member of the MTS Board of Directors since 1997. He is the Chairman of the Audit Committee and a member of the Governance Committee.

Jocelyne M. Côté-O'Hara

Corporate Director
Ms. Côté-O'Hara has been a member of the MTS Board of Directors since 1997. She is a member of the Audit Committee and the Human Resources & Compensation Committee.

Patrick Pichette

CFO, Bell Canada
Mr. Pichette has been a member of the MTS Board of Directors since 2002. He is a member of the Audit Committee.

N. Ashleigh Everett

Chairman, Royal Canadian Properties Limited & President, Royal Canadian Securities Limited
Ms. Everett has been a member of the MTS Board of Directors since 1997. She is a member of the Audit Committee and the Governance Committee.

Randall J. Reynolds

President & CEO
Bell West Inc.
Mr. Reynolds has been a member of the MTS Board of Directors since 2000. He is a member of the Governance Committee.

John F. Fraser, O.C.

Chairman, Air Canada
Mr. Fraser has been a member of the MTS Board of Directors since 1997. He is the Chairman of the Governance Committee and a member of the Human Resources & Compensation Committee.

Gedas A. Sakus

Corporate Director
Mr. Sakus has been a member of the MTS Board of Directors since 1999. He is a member of the Human Resources & Compensation Committee.

William C. Fraser, FCA

President & CEO
Manitoba Telecom Services Inc.
CEO, MTS Communications Inc.
Chairman & CEO
MTS Advanced Inc. and Qunara Inc.
Mr. Fraser has been a member of the MTS Board of Directors since 1997.

Arthur R. Sawchuk

Chairman, Manulife Financial Corporation
Mr. Sawchuk has been a member of the MTS Board of Directors since 1997. He is a member of the Governance Committee and the Human Resources & Compensation Committee.

Raymond L. McFeetors

President & CEO
The Great-West Life Assurance Company and London Life Insurance Company
Mr. McFeetors has been a member of the MTS Board of Directors since 1997. He is a member of the Governance Committee.

D. Samuel Schellenberg

CEO, Pembina Valley Water Cooperative Inc.
Mr. Schellenberg has been a member of the MTS Board of Directors since 1989. He is Chairman of the Human Resources & Compensation Committee and a member of the Audit Committee.

C. Arnold L. Morberg

Chairman & CEO
Calm Air International Ltd.
Mr. Morberg has been a member of the MTS Board of Directors since 1997.
He is a member of the Audit Committee.

John W. Sheridan

President, Bell Canada
Mr. Sheridan has been a member of the MTS Board of Directors since 2000. He is a member of the Human Resources & Compensation Committee.

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